

JPRS-CAR-89-023

20 MARCH 1989



FOREIGN
BROADCAST
INFORMATION
SERVICE

JPRS Report

China

19980812 082

REPRODUCED BY
U.S. DEPARTMENT OF COMMERCE
NATIONAL TECHNICAL
INFORMATION SERVICE
SPRINGFIELD, VA. 22161

DTIC QUALITY INSPECTED 1

China

JPRS-CAR-89-023

CONTENTS

20 MARCH 1989

POLITICAL

Survey of Citizens' Political Psychology [GAIGE No 6] 1

ECONOMIC

NATIONAL AFFAIRS, POLICY

Price Reform Seen as Key to Economic Reform [ZHONGQINGNIAN JINGJI LUNTAN No 6] 7
Importance of Property Right Reform to Overall Reform [GAIGE No 6] 14
Need To Establish Enterprise Property Rights Market Discussed
[SHIJIE JINGJI WENHUI No 6] 23

FINANCE, BANKING

History, Prospects of Financial Reform [JINRONG SHIBAO 18 Jan] 27

AGRICULTURE

Anhui Reports Progress in Effort To Ensure Bumper Harvests [ANHUI RIBAO 10 Jan] 30

SOCIAL

Causes of Crime Under Socialist Systems, Institutions [ZHENGZHI YU FALU No 6] 31

TAIWAN

Exchange Rate War, American 'Psychological Warfare' [TSAI HSUN No 81] 33
Survey on Lee Teng-hui's Performance [TZULI WANPAO 15 Jan] 34
Speculations on Chiang Wei-kuo's Political Future [TZULI WANPAO 30 Dec, 1 Jan] 35
Status Discussed 35
Criticized in Open Letter 37
Lin Yang-kang Discusses Recent Developments, Denies Ambition [TZULI WANPAO 19 Jan] 37
Travails, Future of Wu Po-hsiung Analyzed [TZULI WANPAO 8 Jan] 40
Frustrations of Political Life [TZULI WANPAO 11 Jan] 42
'Taiwan Fever' in Publication Circles [TZULI WANPAO 1 Jan] 43

Survey of Citizens' Political Psychology
40050165 *Chongqing GAIGE [REFORM] in Chinese*
No 6, 10 Nov 88 pp 150-156

[Article by Li Yiping 2621 0181 5493: "Survey of the Political Psychology of Chinese Citizens"]

[Text] In various ways and on their own initiative, Chinese citizens are now getting involved in political life. Their understanding of China's politics and their criteria for evaluating it are developing in a direction that departs from tradition. In their behavior in China's politics, some new characteristics are being reflected and have appeared. People only understand this change in a piecemeal fashion. To describe this change quantitatively, to analyze objectively its state and to where it is being guided, and also to thoroughly analyze the basic Chinese citizens' political psychology that is causing it, the Group for the Investigation and Study of the Political Psychology of Chinese Citizens in July and August of 1987 conducted a survey of citizens' political psychology in 22 provinces and cities of China.

The survey was conducted in the form of a questionnaire, which was filled out either by the objects of the survey or by the survey-takers from the verbal answers given to them. Workers, peasants, individual households, cadres, and intellectuals were the main objects of the survey. A little over 5,000 questionnaires were handed out and 3,024 valid ones were collected. The survey obtained 7.4 million pieces of data. Because of the relative stability of the foundation for psychological reaction, the results of this survey can reflect the trends and characteristics in the psychological reaction of Chinese citizens, in the past and for a considerable time in the future, toward politics in contemporary China.

1. In the Citizens' Identification With the "Party" and the "State," Their Unconditional Love of Country Is Not Equivalent to Their Unconditional Political Identification

In the period of the Cultural Revolution, an equal sign was drawn between the unconditional love of country and the unconditional political identification with the socialist state system. However, following the enormous changes over the recent 10 years, in the political psychology of the citizens of our country there has reappeared a trend that differentiates the two. For several decades countless Chinese have suffered during political movements and political upheavals, and time and again they have been disappointed. However, 85.7 percent of the people surveyed thought: Even if your country disappoints you, that is no reason to denounce her. To the question "Do you feel proud to live in a socialist country?", 54.2 percent answered in the affirmative, but 44.3 percent answered "I can't say whether I feel proud or not" or "I don't have a sense of pride." Relevant to this point, about a third of the people surveyed indicated that they understood why people, after studying abroad, do not return to China. They thought this was a natural

phenomenon or that the socialist motherland had disappointed these people. Although that blind, fanatic, unanimous political identification that obtained among citizens more than 10 years ago has weakened, and in some cases has even vanished, the survey showed that people who have no political identification with the socialist country are still a tiny minority, only 1.1 percent. They do not feel "proud" or they feel "exactly the opposite" about growing up in a socialist country.

The great majority of the people surveyed thought that other people should be permitted to speak up when the party makes mistakes, but they also thought that, at least in the present stage, it is necessary for "the party to take the lead in all things." Has the position of the party in the people's eyes changed? The answer to this question may be given by the two indices concerning the degree of sense of pride on the party of party members and the degree of looking forward to joining the party on the part of the nonparty masses. Of the party members, 57.2 percent answered that they "have always been proud" to be party members, 34.7 percent said they "had been proud," and 8.1 percent said they "had never been proud." Of the nonparty masses, 43.2 percent indicated that they "very much wanted" to join the CPC, 42.8 percent indicated that they "couldn't say" whether they wanted to join or not, and 14.0 percent indicated that they "didn't want" to join. Obviously, the party's position in the eyes of the people has already changed. People no longer, as they did more than 10 years ago, look upon the party as consistently being the embodiment of "all that is great, glorious, and correct." They think that it lives in the soil of a real society and, therefore, at the least, in the psychological distance between "the organization and the person" the party gets more and more close to its own members and to the masses around it. The majority of the party members and the masses think that the party can make mistakes. However, with regard to how to treat the mistakes that the party can make, people had different emotional reactions. Last year someone made a criticism of the party that was considered to be a "liberalized" criticism, and it evoked different repercussions among the people. Of the people surveyed, 2.6 percent thought that "other people should be permitted to speak up when the party makes mistakes." It is thus clear that the attitude toward the party taken by the great majority of people has already come out of the stage of being swayed by emotion to the right or to the left. However, about a third of the people still did not agree with this way of treating the party. Of the people surveyed, 30.3 percent thought that "although the party makes mistakes, it should not be treated in this way and, instead, suggestions should be made"; 3.4 percent thought that "although the party makes mistakes, it should be all right and criticisms of it should not be permitted"; and only 1.4 percent thought that "the party does not make mistakes, and those who say it does are maliciously attacking it."

Table 1: Are You Proud To Live in a Socialist Country?

| Occupation Answers(%) | Total | Worker | Individual Household | Intellectual | Cadre | Peasant |
|--------------------------|-------|--------|----------------------|--------------|-------|---------|
| Proud | 54.2 | 53.7 | 67.0 | 52.8 | 66.6 | 44.7 |
| Can't say | 29.1 | 30.2 | 28.7 | 30.5 | 21.9 | 34.4 |
| Not very proud | 15.2 | 13.9 | 13.9 | 16.0 | 11.0 | 19.6 |
| Exactly the opposite | 1.1 | 2.1 | 0.4 | 0.7 | 0.6 | 1.3 |

How do people today evaluate the CPC as the ruling party? The survey showed that 64.6 percent thought that the party's aims were consistent with the people's demands on the party, but that 29.0 percent thought that there was a gap between them; 51.9 percent thought that the goals of social development put forward by the party were consistent with the people's demands, but that 41.6 percent thought that there was a gap; and 57.4 percent thought that all the principles and policies formulated by the party were consistent with the people's demands, but that 38.1 percent thought that there was a gap. Thus, it can be said that, as the party in power, the majority of people approves of the CPC's aims, goals, principles and policies. However, the party did not get the people's approval of its style, its members' exemplary leading role, and its image. Of the people surveyed, 77.9 percent thought that there was a gap between the exemplary leading role of party members and the demands of the people, and of them 33.5 percent said that "the gap was too wide"; 61.9 percent thought that there was a gap between the party's image and the people's demands, and of them 22.3 percent thought that "the gap was too wide."

Then, is the party's leadership wanted in China? The results showed that of the people surveyed 59.2 percent thought that the idea of "the party taking the lead in all

things" will "always be necessary" in China; 30.4 percent thought that the idea "is necessary in the present stage, but I'm not certain that it will be necessary later"; and only 10.4 percent thought that it "was necessary in the past, but is not necessary now." Nearly 10 percent of the people making up this 10.4 percent figure thought that "the party should only control its own members and organizations."

2. The Citizens' Psychological Evaluation of the "NPC," "Judicial System," and "Government"

The citizens' psychological reaction to the NPC [National People's Congress] seemed to be indifference. Of the people surveyed, 22.6 percent thought that the NPC was "just a decoration" or that it had "no effect," 16.5 percent were "not clear" about its effect, 44.5 percent thought it had "some effect," and only 15.4 percent thought it had "a very big effect." This indifference was shown in the fact that the citizens do not entertain high hopes for the NPC. On the questionnaire was this question: "Do you place your hopes on achieving true democracy by perfecting the NPC system?" Of the people surveyed, 52.3 percent answered that they did not. When an analysis was made of the citizens' participation in politics, it was seen that their attitude toward NPC elections was one of indifference, unconcern, and casualness.

Table 2: Do You Think That the Idea of "the Party Taking the Lead in All Things" Will Always Be Necessary in China?

| Occupation Answers (%) | Total | Worker | Individual Household | Intellectual | Cadre | Peasant |
|--|-------|--------|----------------------|--------------|-------|---------|
| Always be necessary | 59.2 | 63.4 | 63.7 | 45.9 | 50.0 | 65.5 |
| Necessary at the present stage but not certainly necessary after it | 30.4 | 25.5 | 18.9 | 43.6 | 44.8 | 25.3 |
| Necessary in the past but not necessary now | 10.4 | 11.1 | 17.4 | 10.5 | 5.2 | 9.2 |

Unlike the indifferent position of the NPC, the position of the Judicial System is much more important in the eyes of the people. However, a noteworthy trend in the citizens' psychology is that they showed no trust in the impartiality and authority of law. The survey showed that 32.1 percent of the people thought that in China, in the final analysis, law was not greater than power but

rather the opposite was true; and 34.1 percent did not think that in our country the equality of everyone before the law had already been achieved. The citizens' evaluation of the law-enforcement process was even lower. Of the people surveyed, 69.6 percent thought that the people who executed the law were not absolutely impartial, and 71 percent thought that the people who enforced the

law could be bribed and corrupted. It can be well imagined that, with this understanding, the citizens have great difficulty in taking legal measures with the perfect assurance that by doing so they will protect their rights and interests. In the questionnaire the following situation was assumed: "One day, while on a street, Master Worker Wang [3679] suffered an injury from being beaten by a policeman. After he returned home, the family discussed what to do." The questionnaire then provided four answers to choose from and asked: "Which is the most realistic way to handle the situation?"

1. The wife said: "By beating you the policeman knowingly violated the law. I would seek out his leaders and then sit in their office and not budge until the problem was solved."

2. Master Worker Wang said: "Let it pass. The leaders will be partial toward their subordinates and will not conscientiously solve the problem. They'll probably say that you have no grounds to raise hell and then they'll arrest you. We'll just have to put up with it!"

3. The daughter said: "According to the law we can go to court and bring an action against him."

4. The son said: "That would also be useless. What to do, in my view, is to find some fellows who will beat him up on the sly."

The survey showed that 41.3 percent of the people thought that Master Worker Wang's way was most realistic, 22.0 percent that that his wife's way was most realistic, and 9.2 percent thought that his son's way was most realistic. A total of 72.5 percent of the people chose one of these three answers. Either they had misgivings about employing legal methods, or they thought that the law, in reality, could not solve the problem in comparison with "going to his leaders' office and sitting there and not budging" or "beating him up on the sly." Can the common people bring a successful legal action against an "official"? In a lawsuit between a citizen and an "official," can the law maintain its absolute impartiality? On these questions the majority of the citizens took a skeptical attitude. The fact that in the survey only 27.5 percent of the people thought that "going to court and bringing an action against him" was most realistic is enough to illustrate the problem.

How is the government evaluated in the citizens' psychology? The survey showed that the majority of people are satisfied with the government, but that they are not satisfied with its administrative efficiency and its officials. Of the people surveyed, 68.8 percent thought that the government wanted to do things for the common people or was doing things for them. Of the people who thought this, 17.4 percent thought that "the government is working to do practical things for the common people"; another 49.4 percent showed that they had a good understanding of the government's work when they agreed with the statements "the government has its own

difficulties, but whenever possible it will do anything it can for the common people," "the government shows good consideration for the common people, and we should have full faith in it," and so on and so forth. With regard to the majority of things that the government has already done, 73.8 percent of the people expressed satisfaction, but the great majority of them were dissatisfied with the efficiency of government work, 44.8 percent of these people saying they were "not too satisfied" and 21.1 percent saying they were "very dissatisfied." The people surveyed also thought that the reform of "administrative efficiency" was extremely important. Of the 16 reforms of the government system listed on the questionnaire, the objects of the survey put this reform in second place, just after the reform of the "cadre system."

Compared with their evaluation of the government, the people's evaluation of "government officials" was much lower. Of the people surveyed, 69.8 percent expressed dissatisfaction with the work style of government personnel; 32.1 percent thought that "an official" does not put the interests of the country and the people in first place; 51.3 percent thought that "an official knows how to climb up the ladder"; 49.7 percent thought that "an official knows how to get what's good for himself"; 54.8 percent thought that "the majority of officials are full of bureaucratic airs"; and 50.3 percent said: "I don't know what an official is busy with all day long, when he can't get a few serious things done."

3. The Citizens' Recognition and Evaluation of Democracy and a Citizen's Rights

Democracy is understood in different ways.

Without a doubt, "democracy" is one of the political ideals of Chinese citizens. But just what is democracy? What is the connotation of democracy in the minds of Chinese citizens? The answers to these questions will determine the kind of democracy that Chinese citizens seek. In the definition of democracy there is a world of difference between "the masses of people being the masters of their own affairs" and "making decisions for the people"; the former is democracy and the latter is not. If we differentiate democracy by the degree of democratization, then the former is the highest degree of democracy and the latter, even if it can be reckoned as democracy, is the lowest degree of democracy. However, in the survey only 1.6 percent of the people understood democracy to be "the masses of people being the masters of their own affairs." Nearly as many people (10.9 percent) understood democracy to be "making decisions for the people." The other people understood democracy in senses that were not strict. Occupying the middle position between the above two definitions, 24.9 percent thought that democracy was "democracy under centralized guidance"; 19.5 percent thought that democracy was "extensive listening to and soliciting people's opinions"; 5.2 percent thought democracy was "the minority submitting to the majority," and so on and so

forth. Obviously, the citizens' understanding of democracy was very vague. However, even if each had his own understanding, we still get this evaluation: 58.1 percent of the people thought that "China now has a certain amount of democracy, which needs to be further perfected"; 3.9 percent thought that "China now has a high degree of socialist democracy"; and 17.0 percent thought that "China is very deficient in democracy." Because they understood democracy in different ways, their criteria for evaluating democracy were also different. No matter what people understood democracy to be, the conclusions they reached by evaluating democracy in accordance with their own criteria are still of practical significance. From these evaluations it can be seen that the Chinese citizens' criteria for evaluating democracy tend to be low and their satisfaction with democracy tends to be high. This alternation of low and high shows that the Chinese citizens' consciousness of democracy is fairly weak. This is a condition of the nation and the people that cannot be ignored in the course of democratizing China in the future. With regard to adopting, in the end, a way to promote the process of building democracy in our country that is more effective, this point cannot be underestimated.

There is a limited recognition of a citizen's rights, and the consciousness of these rights is not high.

What rights does a Chinese citizen enjoy? On this question the citizens have made their own evaluation. Of the 14 citizen's rights listed on the survey questionnaire, the first 3 that are thought to be "fully enjoyed" or "basically enjoyed" are "freedom of correspondence" (91.0 percent), "right to get an education" (84.2 percent), and "inviolability of residence" (80.9 percent). Of the citizen's rights thought to be "lacking" and "basically lacking" or "barely enjoyed" and "only enjoyed in token fashion," in first place was "freedom of assembly and demonstration" (62.3 percent), in second place was "the right to criticize the government" (56.7 percent), and in third place was "freedom of association" (48.5 percent).

More than 80 percent of the people were able to evaluate a citizen's rights in all aspects, but, generally speaking, the degree of their recognition of these rights was not high and their consciousness of these rights was limited. Of the people surveyed, 17.2 percent "could not say clearly" whether there was "freedom of association" in China; 15.6 percent "could not say clearly" whether, as a Chinese citizen, he enjoyed "the right to privacy"; and 14.2 percent "could not say clearly" what "freedom of assembly and demonstration" meant in China. Because of this level of understanding, and on the basis of differentiating degrees of concern, the first three places chosen by Chinese citizens as now being a citizen's rights of most concern were "personal freedom" (first place), "the right to elect and to be elected" (second place), and "freedom of speech" (third place); in the last three places were "freedom of religious belief" (in first place counting backward), "freedom of association" (in second place counting backward), and "freedom of assembly and demonstration" (in third place counting backward).

Stability was thought to be more important than democracy and freedom.

In China, stability and the demand for democracy and freedom frequently conflict with each other. What would the citizens choose? In the survey, intellectuals were asked to make individual evaluations, in order of importance, on seven goals of social development, namely, equality, stability, freedom, democracy, order, and impartiality. The result was that more of them thought that stability was of first importance, freedom came behind stability, and democracy came behind equality and order.

4. The Characteristics of the Chinese Citizens' Participation in Politics

The great majority of Chinese citizens possess a consciousness of participating in politics.

"Every man has a share of responsibility for the fate of his country"—94.2 percent of the people surveyed agreed with this statement. This statement embodies the sense of responsibility of the overwhelming majority of Chinese citizens, and it is an important basis for their consciousness of participating in politics. Another result of the survey showed that the Chinese citizens had a strong consciousness of being masters, and this was also an important basis for their consciousness of participating in politics. More than 50 percent of the people surveyed thought they were "the masters of the country," "the masters of the places where they lived," or "the masters of the units in which they worked"; and that they had the power and control over the things that occurred within these spheres. On the basis of this sense of responsibility and this consciousness of being masters, the great majority of Chinese citizens possessed a consciousness of political participation in the different administrative levels to which they belonged. Of the people surveyed, 83.5 percent said "I am very concerned with the major and minor events that occur in our country," 71.7 percent said "I am very concerned with the major and minor events that occur in the place where I live," and 68.7 percent said "I am very concerned with the major and minor events that occur in the unit in which I work."

The level of actual participation is not high, and the ways of participation are limited.

Even though Chinese citizens possess a certain consciousness of political participation, the level of their actual participation is not high. As an example, the survey showed that 53.9 percent of the people took part in the direct election of local representatives of the NPC. However, of these people 12.8 percent said that they had just "drifted with the stream," 22.1 percent admitted that they had voted as a "matter of form," 2.4 percent thought that they had been forced to take part in the voting, and 2.0 percent voted because they knew the candidate. That is to say, at least a third of these people,

although participating in the election, did not take it the least bit seriously. Moreover, half of the 46.1 percent of the people who did not take part in the election did not do so because they "weren't notified of the election," they "didn't have the time to vote," they "put it off because of other matters," or because "it didn't matter to me who acted as my representative," and so on and so forth. Those who voted did so rashly, and those who did not vote abstained rashly. It is thus clear what kind of casual attitude a considerable number of citizens take when participating in actual political life. As many as 51.4 percent of the people answered definitively that, when they didn't know or didn't understand the candidate, they "made a random choice."

When there is a direct encroachment on the interests of the individual or the interests of a group or stratum of society, the citizens become more conscientious about their political participation. The ways in which they participate are both positive and negative, and are concentrated on three principal aspects, namely, "reporting upward," "tolerating," or "striking and demonstrating."

Table 3: If You Discovered That a Certain Policy of the State Was Seriously Infringing on the Interests of You, Your Colleagues, and the People at Your Level, What Would You Do?

| Occupation | Total | Worker | Individual Household | Intellectual | Cadre | Peasant |
|---|-------|--------|----------------------|--------------|-------|---------|
| Selected Answer(%) | | | | | | |
| Slow down | 4.9 | 7.4 | 8.7 | 3.9 | 3.8 | 2.6 |
| Grumble | 10.5 | 12.1 | 8.7 | 13.3 | 7.3 | 10.6 |
| Tolerate it and think of ways to make up for the loss | 10.1 | 7.2 | 12.3 | 6.7 | 8.2 | 14.7 |
| Wait a while, there's always someone who will solve the problem | 7.3 | 5.0 | 6.2 | 9.5 | 7.9 | 8.1 |
| Write a letter to a newspaper office | 11.3 | 9.9 | 12.0 | 9.8 | 9.0 | 14.7 |
| Join with others to appeal to the higher authorities for help | 3.9 | 2.8 | 8.7 | 3.5 | 2.3 | 3.1 |
| Report upward through the party organization | 16.9 | 16.8 | 7.1 | 12.6 | 26.0 | 17.9 |
| Report upward through the labor union | 4.8 | 9.6 | 4.2 | 3.5 | 3.2 | 3.4 |
| Report to the relevant policy department | 17.9 | 16.8 | 23.2 | 24.2 | 17.9 | 12.1 |
| Take to the streets and demonstrate | 0.6 | 0.6 | 0.0 | 1.8 | 0.3 | 0.4 |
| Strike | 2.5 | 3.9 | 4.2 | 1.1 | 1.8 | 2.1 |
| Make allowances for the state | 7.4 | 3.7 | 6.3 | 6.3 | 9.9 | 8.1 |
| Other | 1.8 | 0.5 | 0.8 | 3.9 | 2.6 | 1.4 |

There are psychological blocks in their political participation. "Do you have certain political convictions for which you would struggle?" Of the people surveyed, 57.0 percent answered that they did. "If you have them, under what circumstances would you stop your struggle?" Nearly a third of the people answered that they would stop their struggle when they "could be punished or criticized," when their "grade adjustment or bonus could be adversely affected," and even when their struggle "made the members of their family worried or unhappy." It is thus obvious that the damage that can be caused to interests, reputation, and other aspects to a very great degree adversely affects the citizens' political participation and creates psychological blocks that cannot be underestimated. Even the fact that whether "an official" is happy or not directly affects the people's

In the questionnaire there was this question: "If you discovered that a certain policy was seriously infringing upon the interests of you, your colleagues, and the people at your level, what would you do?" With the exception of the 1.8 percent of the people who selected the answer "other," 98.2 percent made their selections from the other 12 answers listed. The results were: The answer "report to the relevant policy department" was selected by the most people (17.9 percent), and the answer "take to the streets and demonstrate" by the least (0.6 percent). By classifying and adding together the 12 answers selected, we get the following breakdown: 50.9 percent of the people thought they would report upward, including "reporting upward through the party organization," "reporting upward through the labor union," "reporting directly to the relevant policy department," and "writing a letter to a newspaper office"; 39.3 percent thought they would tolerate it, wait, grumble, or slow down, and among them a small number would "make allowances for the state"; and only a very small number (7.0 percent) would "strike," "join with others to appeal to the higher authorities for help," or "take to the streets and demonstrate."

enthusiasm for participation. Of the people surveyed, 49.5 percent agreed with this philosophy: "When you are in front of officials never make suggestions, because they do not necessarily like 'democracy"'; 20.6 percent said they did not agree with this philosophy. On sensitive political issues, the people were especially cautious about their participation. With regard to the campus upheavals at the end of 1986, 73.0 percent admitted, "I asked about them and discussed them with other people." But 60.9 percent stated clearly: "No matter what, I will not take part in an activity like a student demonstration"; 46.1 percent said: "Even if it were advantageous for society, I would not take the risk of engaging in politics"; and 62.7 percent thought that the less their involvement in political affairs the better. People even had misgivings about discussing political issues, 62.4 percent of them admitting: "I am very cautious about discussing political

issues." Although Chinese citizens have a fairly high consciousness of and desire for political participation, they are not used to it, are reluctant, or do not have the conditions for participating in politics openly in their capacity as ordinary citizens. Especially with regard to political participation that could easily lead to conflict, they are more willing to adopt a style that is moderate, that remains under cover, and that avoids conflict. Many citizens pin their aspirations in political participation on "being an official." Even though there is among the citizens a fairly widespread psychology of resentment of and disdain for "officials," the great majority of them—62.0 percent—admitted, "If there was an opportunity, I would be willing to be an important official and do some useful things for society." Thus the contradiction is produced in the citizens' political psychology of disdaining bureaucrats and yet wanting to enter their stratum. Another, related, contradiction is also produced in their political psychology—the contradiction of wanting to be an official and having the self-knowledge that one cannot be an official. Of the people, 76.4 percent thought that "becoming an official is not solely dependent on one's capability." Therefore, the citizens keenly feel the importance of the reform of the cadre system. In a question to be answered by listing in order of importance 16 reforms of the political system, in first place in number were the people who thought that the reform of the cadre system was most important.

5. The Political Principles of the Citizens

With Regard to the Reforms in Contemporary China of the Chinese citizens, 69.2 percent "pay close attention" to the progress being made in the reform of the economic system, and 64.2 percent "pay close attention" to the

progress being made in the reform of the political system. Following the deepening of the reforms and following the appearance of changes and contradictions in all aspects brought by the reforms, people are looking at them more, feeling them more, and pondering them more. The Chinese citizens are the main part of the reforms, and their selection of principles is maturing day by day. Of the people surveyed, 47.7 percent agreed with this selection: "For China what is important is not the holding of any one principle, but rather the development of the economy as fast as possible; if a principle is suited to this development it should be used." Another 14.4 percent expressed their opposition to this selection. The reforms and the opening to the outside world have caused Western trends of thought of every description to enter China. In this regard, 45.6 percent of the citizens thought that "this is a problem that has appeared during the country's advance, and it should be solved under the premise of sticking to the policy of opening to the outside world"; 7.4 percent gave their full affirmation to this phenomenon and thought that "it was a good sign of ideological invigoration"; 22.5 percent thought it was "a normal phenomenon"; and only 9.3 percent thought it was "a retrogression and an infiltration of bourgeois spiritual culture." With regard to the confusion that the reforms have already brought or could bring, 67.5 percent of the people surveyed thought that "there is no need to make a fuss because this problem will be solved during the reforms themselves," "reforms are bound to bring with them some confusion, which will only be dispelled through the continuation of the reforms," and "we should be prepared to pay every price needed to effect the reforms"; 20.1 percent thought that "the reforms should be continued as long as the masses are able to accept them"; only 5.2 percent thought that "to prevent the disruption of stability and unity, it would be better to stop the reforms"; and 7.5 percent selected "other."

Table 4: How Do You View the Fact That Some Confusion Has Appeared During the Reforms?

| Occupation | Total | Worker | Individual Household | Intellectual | Cadre | Peasant |
|--|-------|--------|----------------------|--------------|-------|---------|
| Answers (%) | | | | | | |
| There is no need to make a fuss because the problem will be solved during the reforms themselves | 36.9 | 40.6 | 32.5 | 38.8 | 44.1 | 26.6 |
| The stability of society's psychology must not be disrupted, and the reforms should be continued as long as the masses accept them | 20.1 | 16.5 | 19.2 | 18.0 | 17.4 | 29.2 |
| Reforms are bound to bring some confusion, which will only be dispelled through the continuation of the reforms | 21.0 | 20.0 | 16.7 | 26.8 | 21.0 | 15.6 |
| We should be prepared to pay every price needed to effect the reforms | 9.6 | 11.8 | 10.0 | 9.2 | 8.9 | 9.3 |
| To prevent the disruption of stability and unity, it would be better to stop the reforms | 5.2 | 7.5 | 3.3 | 2.6 | 3.6 | 8.3 |
| Other | 7.2 | 3.5 | 18.3 | 5.3 | 5.0 | 11.0 |

NATIONAL AFFAIRS, POLICY

Price Reform Seen as Key to Economic Reform

40060325 Tianjin ZHONGQINGNIAN JINGJI
LUNTAN [YOUNG ECONOMISTS FORUM]
in Chinese No 6, Nov 88 pp 4-12

[Article by Economic and Price Reform Topic Group at Nankai University: "Economic Structural Reform Should Revolve Around Price Reform"—excerpted by source]

[Text] Chinese economic structural reform to date has entered a critical transitional stage in which the old system is giving way to the new. The central task of reform in the foreseeable future is to control inflation, create a positive economic climate, conduct coordinated reform revolving around price reform, strengthen market mechanisms, and speed up the formation of economic operating mechanisms to enable the "state to regulate the market and the market to guide enterprise."

The prerequisites for reform intensification are now basically in place after a decade of reform and economic development. In order to sort out price relations in the next 5 years or so, we should not continue to reform in a fragmented uncoordinated manner. Instead, we should do it in a coordinated way, focusing on one or two reforms that influence the entire economy. Accordingly, we put forward a basic reform philosophy of which price reform forms the core and the engine.

I. Overhaul the Strategic Philosophy of Economic Development; Create a Favorable Economic Environment for Price Reform

1) Inflation is the major hurdle to the intensification of price reform. The money supply has been growing rapidly in recent years, increasing by 26.2 billion yuan, 19.6 billion yuan, and 23 billion yuan in 1984, 1985, and 1986, respectively, and by 23 billion again in 1987. The combined increase in these 4 years accounted for two-thirds of all money in circulation, well in excess of the amount actually needed. As a result, the overall price level has been climbing faster and faster, to the detriment of the creation of a favorable economic climate for price reform as well as undermining the workers' understanding of and support for price reform. Thus it can be seen that a top priority these days is to issue money strictly for economic reasons and control inflation. It takes the early formulation of a monetary policy that is based on law to fundamentally ensure stable, sustained, and healthy economic development.

2) Economic "overheating," the result of an "overtake" strategy, is the root cause of inflation. Each year in the last 5 years, the growth rate of the gross value of industrial output has significantly exceeded the projection in the plan. In 1983, it expanded 10.5 percent, compared to a planned rate of 4 percent; in 1984, 14.2 percent, versus 7.5 percent; 1985, 18 percent, versus 5

percent; 1986, 11.4 percent, versus 8.8 percent; 1987, 14.6 percent, versus 7 percent. To be sure, it is not a bad thing to have the economy expanding at a brisk pace. The problem, though, is that it is achieved at the expense of profitability. During the first 5 months of 1988, for instance, the gross value of industrial output grew 17.1 percent over the corresponding period last year, also greatly exceeding the projected rate of 8 percent for this year. Yet the nation's net value of industrial output dropped 1.4 percent in the first quarter of 1988 compared to the same period last year and 19 percent of all state-owned enterprises reported losses. The losses from January through May equaled those for the entire year of 1985 and represented an increase of 20.1 percent over the same period a year ago. Economic overheating has led to a string of problems: the over-distribution of national income, budget deficits, and a bloated money supply, preventing us from closing the gap between aggregate supply and aggregate demand and from ameliorating structural conflicts in the national economy. It has become a serious barrier to economic structural reform, particularly price reform.

3) Over-investment is the direct driving force behind economic overheating. After financial powers were separated and investment and enterprise reforms went under way, the share of budget investment has been steadily declining while extra-budget investment showed signs of getting out of hand, accounting for 61.5 percent of all investment as early as 1986. This is the result of the myopic investment behavior of intensively competitive localities and enterprises which pursue output value exclusively and try to multiply their output value ahead of time.

4) Fundamental to eliminating economic overheating and creating a favorable economic climate for price reform is replacing the fast growth-oriented economic development strategy with one that seeks economic stability and an appropriate growth rate and allows us to do what we are capable of. Lowering the economic growth rate by a suitable margin will not prevent the achievement of our strategic objective of quadrupling the gross output value. What is more, it will create a favorable economic climate for price reform, speed up reform, and enable economic development and reform to nurture each other.

5) A top priority now is to change the "overtake" strategy of local governments and enterprises with a combination of administrative and economic tools. Administratively, we should effectively control the extra-budget investment by local authorities, particularly consumption-oriented projects in capital construction and those that are motivated by a herd instinct and a desire for quick profits; improve the project examination-and-approval system; and put an end to the practice whereby leaders approve projects. Economically, we should employ fiscal and monetary policies, improve the investment mechanism, and control the investment impulse of enterprises with a tighter monetary and interest rate policy.

6) Even as we modify the guiding philosophy behind the economic development strategy, we should do the same with that behind price reform. After a decade of reform and development, we have accumulated considerable experience. The major national economic proportionate relations have improved markedly and market mechanisms are playing an increasingly extensive role. The microeconomy has been vitalized and market supplies have increased. Meanwhile, the reform of economic mechanisms adds to the urgency of accelerating price reform. Therefore, we should lose no time in changing the current incremental guiding philosophy behind price reform—"cross the river by groping for the stones, one step at a time [groping in the dark]."¹ Instead, we must speed up the pace of reform, truly restore exchange to prices, and let the market guide enterprises, thereby turning "prolonged agony" into "short agony."

II. Adjust the Industrial Structure and Create Conditions for Straightening Out Prices

7) The industrial structure is closely related to prices. In a planned commodity economy, a system of market mechanisms centered on the price mechanism plays a vital role in resource allocation. As the price structure changes, so will the industrial structure. The existing industrial structure shapes the product mix and hence the price structure. A lopsided industrial structure necessarily leads to a distorted price structure.

8) In recent years, China's unsound industrial structure has been improved but not altered fundamentally, as mainly manifested in the following ways: The agricultural base is still fragile and no substantive changes have occurred in the backward traditional agriculture. At present, the productive fixed assets of a rural worker are valued at only 629 yuan on average and merely 55 percent of all irrigated land is irrigated by electrical machinery. Moreover, the land under cultivation has been shrinking and getting less and less fertile by the year, with 30 percent being affected by soil erosion. In the absence of central mechanisms, land is managed poorly and inefficiently. The growth of agricultural output has failed to keep pace with consumption expansion. In major agricultural products such as grain and live pigs, supply has fallen behind demand, putting price reform under tremendous pressure.

The backwardness of primary industries and the fact that they are not producing enough to meet demand have been constraining economic development more and more. Owing to electricity shortages and the underpricing of electricity, the electric consumption elastic coefficient dropped to 0.59 in 1981-1985 from 1.11 in 1976-80 and 1.875 in 1953-1975. In the communication and transportation sector, the gap between capacity and demand has drawn wider. In addition, the transportation structure is irrational. Rail freights are grossly underpriced, exacerbating the lack of coordination between transportation and production and circulation. The postal and telecommunications industry too has failed to

keep pace with the need of economic development. Out of step with the energy and raw materials industries, processing industries have been growing extraordinarily fast, in the process widening the disparity between them and raw materials industries. Between 1979 and 1985, the mining industry and raw materials industry grew 27.5 percent and 67.7 percent, respectively, while the manufacturing sector expanded 93.6 percent. As a proportion of heavy industry, the manufacturing sector was reduced from 52.5 percent in 1978 to 44.2 percent in 1981, only to rebound to 52.9 percent in 1986. Consequently, processing industries have become heavily dependent on imported raw materials. Imported rolled steel accounted for 30 percent of total steel consumed in the past 3 years, up from 17 percent in 1980. Corresponding figures for soda ash, steel, lead, and zinc were, respectively, 34 percent, up from 28 percent; 43 percent, up from 15.7 percent; 44 percent, up from 12 percent; and 70 percent, up from 5 percent. Given the shortage of foreign exchange, this trend is unsustainable.

All localities have been trying to put together a "complete" lineup of industries, whether on a large or small scale. This homogenization of industrial structure has resulted in the fragmentation of investment, with a proliferation of small projects. This violates the principle of the economies of scale and results in duplicating imports and blind construction. It also seriously retards primary industries.

9) Distortions in the industrial structure have intensified structural anomalies in economic development, which have not only pushed up the price level and distorted the price structure, but also impeded price reform. In the course of economic structural reform, we must not only continue to improve the industrial structure by straightening out prices, but also be careful to improve the price structure by adjusting the industrial structure. As long as the industrial structure remains irrational, we cannot sort out price relations in any fundamental way.

10) We must abide by an industrial policy that gives top priority to agriculture and considers agriculture the engine of industrial growth. Giving top priority to agriculture will ease the shortage of agricultural products, on the one hand, and speed up the development of light industry, narrow the gap between supply and demand, and accelerate the withdrawal of money from circulation, on the other, thereby trimming the bloated money supply. We have had some success in this area. In 1979-1982, we made the development of agriculture and light industry a priority and managed to revive the market and stabilize prices despite a serious budget deficit. This led to an improvement in the financial and economic conditions.

11) Speed up the reform of the prices of capital goods, particularly those of energy, raw materials, transportation, communications, and other primary industries, at the same time boosting inputs in these sectors. Capital

goods price reform should be market-oriented. The double-track pricing system should be abolished. In lifting price control on capital goods, we should apply the tax lever in a coordinated way, exempting from taxes key industries and products that need to be developed urgently so as to pave the way for enterprise reorganization and acquisition.

III. Curb the Excessively Fast Growth of Township Enterprises; Improve the Economic Climate of Price Reform

12) Township enterprises were a new force that burst upon the scene suddenly in the course of economic structural reform to become the major new player in economic construction in China. There were 6.5 percent more township and town enterprises in 1986 compared to 1980. During that period, the number of industrial enterprises, construction enterprises, and other enterprises increased 15.8 percent, 49.4 percent, and 64.3 percent, respectively, while agricultural enterprises and transportation enterprises declined 36.6 percent and 11.1 percent, respectively. Total employment in township enterprises increased 46.4 percent in 1986 compared to 1980. Industrial, construction, and other enterprises reported employment gains of 56.6 percent, 141.1 percent, and 25.9 percent, respectively, while agricultural and transportation enterprises suffered drops of 47.3 percent and 3.3 percent, respectively. The gross output value of township enterprises increased 618 percent in 1986 over 1978, for an average annual increase rate of 27 percent. In 1986, township enterprises accounted for 46.9 percent of the gross rural social output value and 23.8 percent of all social output value. Industrial township enterprises also made up 23.4 percent of the nation's gross output value. During the period from 1980 to 1986, the gross revenues of the nation's township enterprises expanded 273.1 percent. Specifically, the earnings of agricultural enterprises rose 72.9 percent; industrial enterprises, 254.6 percent; transportation and communication enterprises, 121 percent; construction enterprises, 564.4 percent, and other enterprises, 491.5 percent. The above data show that township enterprises have been developing inordinately rapidly and that there are clear imbalances in the development structure.

13) The runaway growth of township enterprises is mainly caused by the following. First, the government's low-tax and low-interest rate policies have made it possible for township enterprises to look for market opportunities outside the plan despite a lack of cheap raw materials. Low taxes and low interest rates have lowered the barrier to the market for such enterprises. Second, local governments evaluate the performance of township cadres by how well township enterprises are developing. Thus, even in the belt-tightening year of 1985, the fast-growth momentum of these enterprises was not diminished. Third, overly ambitious targets are set for township enterprises. The national working conference on township enterprises held in December 1987

called for such enterprises to provide jobs for 110 million people and increase their output value to 540 billion yuan by 1990. By the end of the century, they are expected to provide jobs for 170 to 200 million people and boost output value to 1,360 billion to 1,500 billion yuan, or 70 to 75 percent of the gross rural social output value. Only runaway growth could achieve those kind of ambitious targets. Fourth, rural economic structural reform and the development of rural productive forces have not only increased peasants' earnings but also facilitated the shift of large numbers of agricultural workers into non-agricultural employment. The development of horizontal economic associations and the implementation of the double-track pricing system for capital goods too have given township enterprises access to equipment and raw materials through the market. Their productive flexibility and intrinsic expansionist mechanism are the inherent reason why they have been growing so fast.

14) The extraordinarily fast growth of township enterprises has complicated the intensification of price reform. First of all, that kind of growth is a primary reason behind over-investment, runaway credit, and demand explosion. Second, irrational price, tax, and other policies have enabled township enterprises to make huge profits even with their primitive technology. This has undermined the effectiveness of prices as a regulator of resource allocation and industrial structure. Third, most township enterprises compete with large and medium-sized enterprises for energy and raw materials, thus worsening the shortage of popular products and pushing up the prices of capital goods. At the same time, the operational flexibility of township enterprises and their pricing autonomy have made it possible for them to pass onto the consumer the high costs of raw materials in the form of higher prices, a practice which has proved disruptive to market prices. Thus we must check the explosive growth of township enterprises if we are to accelerate price reform.

15) Employ economic tools and establish a regulatory and control system that emphasizes the use of interest rates for leverage to rein in the hyper-fast growth of township enterprises.

First, tighten credit and raise interest rates on deposits and loans. Since the credit funds of the agricultural bank are the most important source of funds for township enterprises, tightening credit is the most effective way to arrest their explosive growth. On the one hand, the local planning commission should reconcile the plan of the township enterprise bureau with the lending program of the agricultural bank. On the other hand, interest rates on bank deposits and bank loans should be raised by an appropriate percentage in order to attract idle funds and curb lending.

Second, there should be proper guidance for all kinds of credit activities and fund-raising. In times of tight credit, township enterprises may turn to credit cooperatives as

the source of funds. Or they could raise funds or enter into joint operation with urban industries. Now that stockholding has become a major source of funds, we should make sure we do not lose control on savings deposits even as we get a grip on credit.

Third, new enterprises should be required to have a higher self-funding rate. As a rule, an enterprise can take out a loan only when its own funds amount to more than 50 percent of the fixed assets and over 30 percent of its liquid funds. In effect, we would be reducing the scale and scope of borrowing by new enterprises to purchase equipment, which should help check the investment explosion.

Fourth, the use of interest rates as a tool should be combined with efforts to improve the tax management system, the fixed assets management system, and the financial management system, and to strengthen the supervision and management of financial distribution. A "township enterprise law" should be drawn up as soon as possible.

16) Township enterprises play a key role in economic development. Therefore, we need to control their growth appropriately, limiting it to about 20 percent in the next few years. The 1990's will be a time when we upgrade our industries and give higher priority to the improvement of profitability. During those years, township enterprises should continue to expand at a faster rate than agriculture and urban industries, appropriately between 10 and 20 percent.

IV. Establish a Futures Trade System for Agricultural Products and a System of Prices for Agricultural Products Dominated by Futures Prices

17) The most glaring problem in the current system of agricultural prices is the declining effectiveness of contract procurement prices as a regulator of agricultural production. The underlying factor is the purchasing and marketing system of agricultural products. Strictly speaking, the existing contract procurement system is not a real contract procurement system. In many respects, it bears the deep imprint of the state monopoly on purchase and marketing. Concomitantly, contract procurement prices are not contract prices, strictly speaking. The contract procurement system has embraced and inherited many of the shortcomings of the state monopoly on purchasing and marketing. For instance, it stifles the market mechanism, retains the social deduction for prices, and fails to guide production effectively or to defuse market risks. As a result, the existing contract procurement prices remain quite restrictive. To let the market determine the prices of agricultural products, we must go in for thorough reform.

18) Building on the achievements of reform, we must overhaul the existing contract procurement system and establish an agricultural futures market so that futures trading would gradually replace the contract procurement system and futures prices would be the dominant

agricultural prices. This would be a correct choice in the reform of agricultural prices. It will have the following effects on the production and exchange of agricultural products in China.

First, it will introduce the market mechanism. In futures trade, what peasants will be dealing with is not a government that manipulates the market, but exchange brokers, traders, and speculators on the same footing as they are. Only prices and not the plan can control market participants. The conduct of both parties will be determined by market guidance. Peasants can determine their production plan in light of futures prices, which will really open up the market for staple agricultural products.

Second, it will moderate agricultural fluctuations. Futures prices are the balanced values of the anticipated values of agricultural products in the future and hence objectively reflect future changes on the agricultural market. In determining their future activities in the light of futures prices, peasants are effectively subject to the regulation of current production by future supply-demand relations. Thus the delayed effects of supply-demand regulation are eliminated, reducing agricultural fluctuations.

Third, it will eliminate price risks. Market risks are in essence price risks. As long as he has a futures contract in hand, the contract holder naturally has to assume the risks of market changes. But since the futures contract can be brought and sold any time, participants in the futures market can modify and avoid price risks through hedging trading. Moreover, through their mere pursuit of profits, the many participants in the futures market also share some of the market risks. This will be a change from the present contract procurement system in which peasants alone assume market risks.

Fourth, it will save trading costs. In futures trading, the circulation of commodities mostly takes the form of the transfer of commodity ownership rights. Since not every transfer of ownership rights is accompanied by the circulation of the commodity itself, we would make considerable savings in commodity circulation costs.

19) Futures trading and the introduction of futures prices require a mature organizational base and sound institutions. It requires that producers and operators, the micro organizations of the agricultural market, be independent legal persons, that mature intermediate organizations exist to be the "intermediaries" of production and demand, and that sound and comprehensive laws and regulations be in place to ensure equal exchange and the sound formation of futures prices. Right now China is still unequipped with the necessary organizational base and institutions for full-blown futures trading. However, we are perfectly capable of proceeding from the current agricultural purchase and marketing system and, even as we step up the reform of contract procurement prices, establish market regulations, overhaul state functions, and introduce market mechanisms into the purchase and marketing of agricultural products through

the nurturing of intermediate market organizations. In addition, we can carry out pilot projects to bring about the transition from the contract procurement system to the futures trade system so that the latter would gradually replace the former.

20) In view of the fact that existing contract procurement prices are far removed from the market, we must first introduce the market mechanism into those prices to make them more market-oriented. Basic approaches are as follows: 1) Reduce as appropriate the amount of agricultural products procured by contract so that more products would enter the market; 2) gradually raise contract procurement prices and make contracting more mutually beneficial; 3) enhance the contract consciousness of both parties and formulate appropriate laws and regulations to ensure that a contract will be honored; 4) intensify the consultative nature of contracting. Gradually introduce a floating procurement base and procurement base price. Allow peasants to carry out indirect limited consultation with the government; 5) gradually popularize negotiated prices. When procurement prices approximate market prices, the state should limit itself to determining the procurement quantity, leaving prices to be worked out between the government and private peasant organizations (such as trade associations) through negotiation.

21) Foster market organizations and establish market rules. 1) Widen the scope of operations of existing enterprises that handle agricultural products and self-managed procurement and marketing so that they can take part in market competition. 2) End the state monopoly on major agricultural products. Encourage individuals and private organizations to engage in the purchase, marketing, transportation, and storage of agricultural products. 3) Gradually increase the market-orientation of processing enterprises that use agricultural products as raw materials. Allow them to buy directly on the market or through intermediate organizations. 4) Establish an agricultural product exchange at places which serve as the collecting and distributing centers of farm products in order to provide sites for futures trading. 5) Gradually work out a set of regulations to protect futures trade, such as an exchange membership system, price quotation system, guarantee fund system, and futures trade law, in order to ensure trading on the basis of equality.

22) The role of the government should gradually become one of the guardian of fair trading. 1) Reduce the scope of centralized government allocation progressively. The government should confine itself to ensuring basic grain for urban residents, making such grain available at prices as close to market prices as possible. 2) Modify the government procurement method. Gradually reduce and ultimately eliminate direct government centralized allocation and procurement. The supply of grain to urban residents by the government should gradually be handed over to a commodity exchange at futures prices. 3) State-run agricultural purchase and marketing enterprises should be converted into agricultural trading companies that will be responsible for their own profits and losses and participate

in futures speculation. 4) Restore the agricultural in-kind tax to lessen the pressure on the state to purchase agricultural products and prevent accidents. 5) Establish a social assurance system. For example, an agricultural product regulation bureau may be set up. Its responsibility will be to buy up agricultural products when there is a surplus and sell them when there is a shortage. Set minimum protection prices. Establish a social relief fund. It would be the primary function of government to supervise and manage market activities under special circumstances and regulate the market.

23) In tandem with the introduction of agricultural futures trading, we may consider raising the agricultural tax by an appropriate margin and restoring the in-kind tax to ensure that the state maintain a partial grip on major agricultural products.

V. Orient Ourselves to the Market; Replace the Double-Track System With a One-Track System; Regulate and Decontrol by Series; Move Quickly Amid Stability; Adopt a Strategy of Attack and Counterattack in the Price Reform of Capital Goods

24) Because of its "inherent weakness," the double-track system for capital goods is predestined to be a target of reform. The basic approach we should take in the price reform of capital goods in the future is to orient ourselves to the market and replace the double-track system with a single-track system. Orienting ourselves to the market means creating conditions as soon as possible to decontrol the prices of capital goods and enable all such goods to enter the market. Apart from a few critical categories of capital goods that are monopolistic in nature and have an impact on the entire economy, (such as rail transport and oil), whose prices should be adjusted by the state based on changes in supply-demand relations, the prices of the bulk of capital goods should be determined by the market. For instance, we may first decontrol the price of steel and let the market regulate it. This is the only way to really bring about the state regulation of the market and the market guidance of enterprises.

25) To straighten out the prices of capital goods within 5 years or so, we must abandon the piecemeal method of adjustment. Instead we should divide capital goods into different series and decontrol them in one move or adjust their prices substantially several times before decontrolling them. As for capital goods in the plan, they should be adjusted methodically. Specifically:

First, classify capital goods into a number of series, such as a coal series, including raw coal, washed coal, and coking coal and a mineral products series, including mining and smelting, and then further subdivide them into sub-series in accordance with the following principles:

1) distinguish between major series and minor series depending on the extent of their impact on the prices of other commodities and the overall market price level;

- 2) distinguish between series in popular demand, series not in popular demand, and balanced series, depending on the supply-demand situation;
- 3) distinguish between high-elasticity series and low-elasticity series, depending on the supply elasticity of the capital goods in question;
- 4) distinguish between monopolistic series and non-monopolistic series, depending on whether the capital goods in question is monopolistic in nature.

Second, depending on the circumstances, bring about price decontrol in one stroke or adjust first, then decontrol. As a rule, the decision whether to decontrol first or to adjust first and then decontrol must comply with the following principles:

First adjust, then decontrol, a major series. Decontrol minor series in one move. Decontrol popular and balanced series. Adjust unpopular series substantially, or decontrol them in one single move in order to stimulate supply. In the case of a high-elasticity series, reduce the number of adjustments or decontrol in one step. In the case of a low-elasticity series, adjustment should be followed by decontrol. Monopolistic series should be adjusted by and large. Non-monopolistic series should be adjusted and decontrolled, depending on the circumstances.

The above principles merely reflect certain unilateral requirements. In real economic life, there can be different configurations of series and the principles of price adjustment and decontrol may conflict with one another. Thus, adjustment and decontrol measures must be considered comprehensively.

26) In the course of price adjustment and decontrol, we should also pay attention to the following issues:

1) "Better sever 10 fingers than hurt 1 finger." Whatever can be decontrolled should be decontrolled in one move. Better decontrol one series than adjust several series.

2) Price decontrol should be such as to help the optimization of the industrial structure.

3) Give full consideration to the financial situation of the state. When the financial situation is favorable, we may select major series for adjustment and decontrol or decontrol more minor series.

27) After the prices of a certain series of capital goods are raised, we should carefully manage the prices of related products, depending on the merits of each case. If the prices of products which depend on that particular series of capital goods have already been decontrolled, we should of course let a rising tide lift all boats. Even if the prices of the products have not been decontrolled, we should also raise their planned prices accordingly. Henceforth we should use the prices of capital goods as a

yardstick and sort out the prices of related products. However, we must ensure that the prices of capital goods rise by a greater margin than those of processed products and avoid a revival of old price ratios. When enterprises producing processed goods encouraged by the state cannot absorb the increase in costs, they should be exempt from taxes or offered tax cuts or subsidies. In principle, no such treatment should be accorded to other products.

28) Comprehensive coordination is what guarantees the success of the price reform of capital goods. Price reform is a highly complex form of systems engineering. It needs to be coordinated with reforms in other areas, otherwise no substantive progress in price reform can be made. At present China still cannot come up with a comprehensive, practical, and feasible plan for coordinated reform. On the other hand, we cannot let the opportunity to reform slip by. Accordingly, we suggest this philosophy of coordinated reform: "attack and counter-attack." In accordance with this philosophy, price reform should serve as the engine of economic structural reform as a whole. Any sector or area impacted by price reform should reform correspondingly in a coordinated way. This way, not only can we ameliorate conflicts between reforms in different areas, but the entire economic structural reform would be able to make substantive progress sooner in the direction of "the state regulating the market and the market guiding enterprise." Judging from the requirements of the price reform of capital goods, we need coordinated reforms in the following areas.

29) Intensify enterprise reform. Clarify property right relations and delegate to enterprises the power to handle profits. What price reform must tackle is the issue of market mechanisms, which form the external environment for enterprise existence and development. Enterprise reform, on the other hand, must tackle the microeconomic basis of economic operations, which constitute the internal driving force of enterprise activities. Thus price reform and enterprise reform are the main themes of economic structural reform. Yet although they are both major themes of reform, they need not proceed at the same pace. Price reform is more difficult and covers a broader area. Today it has become the focus of economic structural reform overall. It follows that we should have enterprise reform revolve around price reform.

30) First and foremost, price reform touches upon enterprises, particularly large enterprises. Even as we further reform the prices of capital goods, we must make it a top priority to really separate ownership from management as part of enterprise reform, clarify property rights relations in large and mid-sized state-owned enterprises, turn over to enterprises the power to handle the returns on assets, orient the enterprise toward the market so as to adapt it to the new situation of the full-fledged entry of capital goods into the market, and strengthen enterprise mechanisms and their ability to absorb rising costs. When enterprises are profitable and capable of internalizing rising costs, they will be able to avoid the "restoration of old price ratios" resulting from successive price increases.

31) Implement the enterprise bankruptcy law without delay and formulate an enterprise acquisition law. The price reform of capital goods, the introduction of the market, and price increases undoubtedly put enterprises under enormous strains. A number of technologically backward and mismanaged enterprises which turn out obsolete products and have low productivity will face the crisis of bankruptcy and closure. It is not the responsibility of the state to keep them afloat or guarantee their survival. Instead, new groups of enterprises should be created through bankruptcy and acquisition to make the most of the economies of scale and optimize the industrial structure.

32) A circulation market for capital goods should be set up as soon as possible to create a circulation mechanism for such goods. The transfer of labor, technology, funds, and fixed assets is an objective prerequisite for the development of a commodity economy. Under the old system, such transfers have been blocked, resulting in the immobility of capital goods, undermining the ability of enterprises to cope with capital goods price reform, and undercutting the effectiveness of price reform. On the one hand, the immobility of capital goods makes it hard for enterprises to adjust their production capacity and the product mix in response to market changes. On the other hand, it has also rigidified the industrial structure and product mix. For instance, many machine tools are sitting idle in existing enterprises today even as new enterprises cry out for such equipment. The result is an artificial shortage of machine tools.

33) Overhaul the functions of government materials and supply departments and separate government from enterprises. Government supply departments should be restructured as pure administrative and management agencies whose main responsibilities will be to review and ratify the planned allocation targets of capital goods; inspect, supervise, and coordinate the operations of all specialized companies; study the price movements of capital goods, and provide information for price departments and price decision-makers in enterprises. Specialized companies under the materials and supply bureaus should be transformed into economic entities that practice independent accounting, have operational decision-making authority, and are responsible for their own profits and losses so that they can compete in the market directly.

VI. Replace Hidden Price Subsidies With Open Price Subsidies; Effect Price Decontrol by Category of Commodity in One Move

34) Price subsidies, which have been increasing steadily in recent years and reached 29.46 billion yuan in 1987, have become a heavy burden on the treasury. Solving the problem of price subsidies is now a major task of price reform and a criterion of the success of price reform. A basic solution is to replace hidden subsidies with open subsidies, which means subsidizing the consumer instead of the enterprise, gradually incorporating subsidies into wages, and wage-and-price indexing.

35) Replacing hidden subsidies with open subsidies and one-step price control by commodity will have a positive effect on price reform. 1) We can really straighten out prices and make prices reflect the market only by abolishing hidden subsidies. 2) It will enable enterprises to compete on an equal footing. That way enterprises will become more vitalized and more adaptable to the market. 3) Replacing hidden subsidies with cost-of-living subsidies for residents will boost their cash incomes substantially and make them better able to cope with price reform. 4) It will introduce a greater degree of openness into the relationship between the state, enterprises, and consumers. 5) This approach both takes into consideration the financial capability of the state and helps check successive price increases.

36) Basic conditions for the replacement of hidden subsidies with open subsidies are now in place. 1) There has been a marked improvement in the economic strength of the state. The economy is expanding steadily. Market supplies have increased noticeably. 2) The incomes of urban and rural residents have gone up considerably. As a result, they are now better able to cope with price increases. 3) The growth of the money supply has slowed down in recent years, increasing 4.9 percent in 1984, 2.5 percent in 1985, 2.3 percent in 1986, and 1.9.5 percent in 1987. Consequently, a bloated money supply is now less and less a factor behind rising prices. 4) Now that the public has gotten a better understanding of the danger of price subsidies, they are psychologically prepared to deal with the replacement of hidden subsidies with open subsidies. For these reasons, we should not let the opportunity to solve the problem of price subsidies slip by.

37) Replacing hidden subsidies with open subsidies is part of price reform and implies that prices must be adjusted or decontrolled. It follows that the change in subsidies cannot take place in isolation by itself. Instead, it must be incorporated into the overall plan of price reform and proceed in tandem with price adjustment and decontrol. Specifically, when price reform necessitates the adjustment or decontrol of the prices of subsidized commodities, we should at the same time replace hidden subsidies for the prices of those commodities with open subsidies. Alternatively, we may incorporate subsidies into wages and carry out wage-and-price indexing, thereby achieving price reform by commodity in one stroke and sorting out prices. After several years of reform, the variety of commodities receiving price subsidies has been reduced significantly. Right now, most heavily subsidized are agricultural products. As such, we should consider zeroing in on agricultural products in our drive to solve the problem of price subsidies. The solution of the price subsidy problem of agricultural products should be coordinated with the adjustment and decontrol of the procurement and marketing prices of agricultural products, with the transition from agricultural contract procurement to futures trading, and with the transition from contract prices to futures prices. Only by replacing hidden agricultural subsidies with open ones and ending the mismatch between procurement prices and marketing prices can we truly sort out prices and promote stable agricultural development.

VII. Index Wages to Prices and Ensure That Living Standards Do Not Decline

38) Wages and prices affect the personal interests of workers and constitute the most sensitive issue in economic structural reform. Price reform, including the abolition of price subsidies, will push up the price level quite substantially. To ensure that the people will not suffer a drop in living standards due to price increases, we must index wages to prices. Apart from accommodating the effects of successive price increases, this approach will ensure that the people's living standards do not fall. It will also get around the inflexibility of price subsidies, which can only go up and never come down, and the mismatch between subsidies and prices as a result of differing effectiveness for a given period of time. In addition, since wage-and-price indexing is compensatory in nature, we can more readily distinguish between the different effects of wage compensation and regular wage increases, which will facilitate wage reform.

39) Indexing is the actual method through which wages are pegged to prices. Which index should we choose? It is proposed that we adopt average wage critical indexing under which we take the average wage of workers in all state-owned units in all localities (counties, municipalities, and autonomous regions) as the critical point. If a worker earns less than the average wage, his wage would be pegged based on the actual wage. If he makes more than the average wage, his wage would also be linked based on the average wage, excluding the part which exceeds the average. By using the average wages in the various localities as the basis for linkage, we can take local differences into full consideration. The suggestion to use average wage as the critical point for indexing is prompted mainly by these considerations: 1) lessen the financial burden on the treasury; 2) protect the living standards of low-income workers and the interests of most workers. In effect, it "helps the poor without making the rich richer"; 3) help stem the trend of wages and prices increasing in turns. Wages here should include base wage, functional wage, piece rate wage, time wage, overtime pay, above-quota wage, bonus, and subsidies.

40) In choosing a price index, we suggest the workers' cost of living index in each locality. This will fully offset the effects of price changes on workers living standards, making it more readily acceptable to the masses. The duration of indexing may be 1 year or half a year. This will avoid the successive price and wage increases and complications resulting from too short an indexing period without affecting the residents' living standards significantly. It will also give the state treasury and enterprises adequate time for preparation. Indexing average wage to the workers' cost of living index is easy to calculate. It is highly visible and easily implementable.

41) Wage-and-price indexing requires that we tackle the following issues. First, check the explosion of consumption funds. Close loopholes in consumption funds. Stop the trend of issuing bonuses, subsidies, and in-kind

payments indiscriminately. Second, increase the scientific quality and rationality of price indices so that they mirror the objective realities of price changes faithfully.

42) Handle the bank savings of the working masses conscientiously and in earnest. Price increases inevitably make deposits lose value, thus inducing people to withdraw money from their banks and spend it, which will disrupt the market. Given China's circumstances, we must deal with the problem of bank deposits correctly and seriously. On no account should we take it lightly. Since wage compensation and the guarantee of the value of deposits cover different areas, simple linkage offers no solution here. When annual price increases are not substantial, we may try to safeguard the value of the deposits by raising the interest rates on them. If price reform is racing ahead rapidly and prices are rising sharply, we can do two things. First, offer high interest rates without guaranteeing the value of deposits. Second, offer low interest rates and ensure the value of deposits under certain circumstances. In other words, the bank adjusts the principal based on the extent of price increases and prohibits withdrawals within a specified period (say, 1 year or longer). Otherwise, the bank will not guarantee the value of the deposits. This approach will help increase public confidence and stabilize bank deposits.

VIII. Step Up Publicity and Make Reform More Open (omitted)

Importance of Property Right Reform to Overall Reform

40060270 *Beijing GAIGE [REFORM] in Chinese*
No 6, 10 Nov 88 pp 31-40

[Article by Tian Yuan 3944 3293: "State Property Rights System Reform—Orientation of the Country's Medium- and Long-Term Reform"]

[Text] There are some major problems in the orientation of the country's medium and long term economic reform that require more thoroughgoing study at the present time. I believe that the study of enterprise system and property rights system reforms are of greatest importance.

I. State-Owned Enterprises and a Mechanism for Assumption of Sole Responsibility for Profits and Losses

During the process of reform in China during the past several years, everyone has paid extremely close attention to solving the problem of enterprises eating out of the large national pot. Economic theoreticians are in universal agreement that unless this problem can be solved, all sorts of difficulties will arise. Consequently, while steadily expanding enterprises' authority for making their own decisions, the state has gradually set as major reform goals for state enterprises the promotion of management decisions, and the assumption of responsibility for all profits and losses. In his famous work titled, "The Economics of Shortage," the Hungarian economist

Kornai defined as "soft budget restraints," a mechanism in which state-owned enterprises are unable to assume responsibility for profits and losses. This is mostly a system whereby the state takes enterprises' excess earnings, losses are borne by the state, tax payments may be reduced or exempted, loans may not have to be repaid or may be increased if necessary, prices may be arrived at through haggling, and enterprises do not themselves bear risks as capitalist enterprises do. Kornai believes that such a state of affairs in socialist economies means that even if command style planning is abolished, no fundamental change occurs. Soft budget restraints remain between enterprises and the state. Kornai maintains that an efficient socialist economy must solve the budget restraint problem in the most important parts of the economy. In other words, risks and returns in a country's economy cannot be centralized in the state; there must be bodies at a level lower than the state that assume responsibility for profits and losses. Kornai's economics of shortage theory is generally acknowledged by both Chinese and foreign theoreticians to be an original view for the analysis of contradictions in socialist economic operations. The "soft budget" issue is commonly termed the "large common pot" in China. An overwhelming majority of economists and political leaders in China believe China's economic system has two main shortcomings. One is the overconcentration of authority, higher authority stifling lower authority; and the other is everybody eating out of a large common pot without regard for the quality of their performance. The way to solve the problem is to gradually change conditions, gradually change the overconcentration of authority, and reduce command style planning through reform, enabling enterprises to assume responsibility for their own profits and losses. In order to realize this objective, the state has taken a series of major reform actions since 1978 including expansion of enterprises autonomy, reducing taxes and making concessions, reducing command style planning, instituting a separation of the powers of the state and of enterprises, and promoting the contract system, etc. To a certain extent, these actions have solved the problem of stifling control, and have played an extremely important role in enlivening enterprises and promoting the development of production. Nevertheless, one phenomenon that deserves attention is that there has been virtually no qualitative progress on the issue of state-owned enterprises assuming responsibility for their own profits and losses. In order to make enterprises assume responsibility for their own profits and losses, during the past 2 years national units concerned have directed that profits retained by enterprises and state funds be kept in separate accounts as state-owned enterprise funds for use in making up losses. Nominally, this policy creates certain conditions for enterprises to assume responsibility for their own profits and losses; however, enterprises' retained profits actually remain state funds, the ownership of funds still being under control of the state. This mechanism for assuming responsibility for losses represents an advance over the former mechanism of assuming responsibility for losses; however, it does not fundamentally differ from it.

Experience in economic reform suggests that further study is required of the problem of responsibility for profits and losses in state-owned enterprises. This means that it is necessary to study, in a fundamental way, whether state-owned enterprises are able to assume full responsibility for their profits and losses. In reality, within the state-owned economy, it is still the state, which has property ownership rights, that bears most of the risk, for failing enterprises or bankrupt enterprises, and for contract enterprises or non-contract enterprises. Ten years of experience and realities show that more has to be done in the way of joining the internal structure and functions of enterprises in order to gain a better understanding of the theoretical concept of state-owned enterprises assuming responsibility for their own profits and losses. My own view is that sole reliance on the promotion of a separation of ownership from operations cannot cause state enterprises to assume responsibility for their own profits and losses. Those who advocate reliance on the separation of ownership from operations to get state-owned enterprises to assume responsibility for their own profits and losses largely misunderstand the fundamental differences that exist between the structure and functioning of state-owned enterprises and other enterprises in a commodity economy in general. This is to say that they misunderstand that the internal structure of "enterprises" includes only two elements, namely, managers and producers in a "duality." By contrast, private enterprises, collective partnership enterprises, and stock share companies contain three elements, namely, owners, managers, and producers in a "trinity." One new change that occurred following the rise of the modern company system was that owners themselves no longer had to go into the enterprises. All they had to do was to invest in the enterprise, and the enterprise's board of directors would represent the owners in a centralized way, ownership of assets in individual enterprises remaining compartmented. China's state-owned enterprises are not enterprises in a traditional sense. They are vastly different from private enterprises or enterprises in an economic sense.

A. China's "state-owned enterprises" are essentially production units. Economic theoreticians' idea of state-owned enterprises that make their own management decisions and assume responsibility for their own profits and losses is that the "enterprise" managers, staff members, and workers themselves make management decisions, and themselves assume responsibility for profits and losses, meaning that all profits remaining after payment of taxes to the state become the property of the "enterprise" managers, staff members, and workers. Conversely, the "enterprise's" losses and all other operating risks are also the responsibility of the "enterprise's" managers, staff members and workers. In the commodity economy in general, enterprise responsibility for their own profits and losses means that as independent operators and as both commodity producers and managers responsible for their own profits and losses, enterprises hold property independent of the government or other entities, and enjoy ownership rights

over this property. Enterprise profits, tax payments aside, mostly become the property of the owner of the enterprises, and this usually causes an increase in the value of the enterprise's assets. Conversely, enterprise losses and other operating risks are likewise borne by the owners, and this usually causes a loss in the value of enterprise's assets.

B. In the actual operating mechanisms in the microeconomy, and in the commodity economy in general, enterprise assumption of responsibility for their own profits and losses is a real economic relationship; however, in a national economy in which there is a "separation of ownership from operations," not only can a substantial amount of after tax profits not revert entirely to control of the "enterprise" managers, staff members, and workers, but also when the "enterprise's" operations fail or losses occur, it is mostly the state as owner that bears responsibility rather than the state-owned enterprises. When bankruptcy occurs, it is primarily the state that loses assets rather than losses being made up out of the earnings of managers, staff members, and workers. Managers, staff members, and workers bear only extremely limited economic responsibility, and it has become increasingly clear that the larger the enterprise, the greater the profits and losses.

The foregoing shows that in China and foreign countries, and in a socialist commodity economy and a western market economy alike, it is the property owners who assume responsibility for profits and losses no matter whether the property owner is the state or a private individual. In China's economic system, "duality" enterprises consisting of managers and producers can only assume responsibility for a very small portion of profits and losses. In order for enterprises to turn in a good performance in administration and management, and in order to stimulate initiative on the part of producers and managers, both operators and producers must bear a certain amount of risk, and take a certain amount of responsibility for profits and losses, and this will require, in turn, the use of various forms of contracting to establish profit and loss responsibility systems, the linking of wages to earnings and taxes, proportional sharing, contracting of responsibility for tasks, and such reform measures to arouse the enthusiasm of enterprises. However, none of these measures suffices to make enterprises assume responsibility for their own profits and losses. In a state-owned economy in which the authority of the state and enterprises is separate, the main responsibility for profits and losses is still borne by the state as owner. All contracting systems are, in fact, different forms of profit and loss responsibility systems.

The key to the problem lies in making the economy operate effectively. Both the restraints that business risks pose and the stimulation that returns provide are necessary. In other words, risks and benefits cannot be borne by the state; substantive restraints on economic entities must exist below the national level. In western market economies, profits and losses are limited to enterprises

themselves. When an enterprise shows losses, neither other enterprises nor the state are automatically responsible for them, nor does any mechanism exist whereby banks, tax collection, or price units become automatically responsible. In a socialist economy of state ownership, however, enterprise operating losses become, in fact, responsibilities borne by the state as owner through loss of income or losses from buildings. Looked at coldly, enterprise losses or bankruptcy shows up as a formal forfeiture of state assets. Clearly, sole adherence on "the separation of ownership from operations," while sidestepping reform of the state property rights systems, will mean that the ultimate risk taker for millions of state-owned enterprises can only be the state. When responsibility for losses is limited to state assets, the large common pot with regard to assets cannot be broken; and sustained, effective operation of the economy is difficult to maintain. Only by narrowing the limits of responsibility for state losses through the creation of numerous entities responsible for losses will it be possible truly to improve property management risks. Furthermore, narrowing of limits on responsibility for losses obviously presupposes reform of the state ownerships property rights system. This is a complex matter requiring thorough study.

II. Reform of the Property Rights System Is the Key in Determining the Medium and Long Term Orientation of Reform

China has been reforming its economy for 10 years, and reform has now entered a period of change from the old to the new system in which numerous complex problems intersect. This requires further clarification of medium and long term reform goals, and the formulation of associated reform plans in order to guide the reform process. Solution to these problems requires fuller study of reform theories, and further exploration of some basic problems.

During the past 2 years, there have been two different views on this important issue of whether the property rights system requires reform. One faction supports reform of the property rights system, particularly reform of the state property rights system. The other faction advocates maintenance of the existing property rights system, believing that the socialist economy can operate effectively under the existing property rights system, and that the direction of reform should be a thorough separation of ownership from operations.

I believe that one cannot simplistically maintain either a positive or a negative view of property rights system reform. Instead one should face realities and analyze the prevailing property rights system in terms of its role in development of the socialist economy, deciding whether it is advantageous or disadvantageous. A conclusion based on thorough analysis is likely to be better than a subjective and arbitrary decision.

By the so-called property rights system is meant the sum of all responsibility, rights, and benefits relationships among economic entities in the wealth formation process. A property rights system is, in effect, society's basic

benefits formation mechanism. After 10 years of economic system reform, reform of the country's property rights system consists primarily of two aspects in terms of the country as a whole. The first is vigorous development of non-state owned property rights entities, including development of the individual economy, the private economy, the collective economy, the stock share economy, etc., the large amount of funds deriving from all income channels being embodied as non state-owned assets for a change in the property rights structure of the entire society. The second is marked advance in the appropriate separation of operating authority and ownership authority within the state-owned economy, and between the state and enterprises. General promotion of various forms of contract responsibility systems by urban industrial and business enterprises, especially during the past 2 years, has further enlarged enterprises authority to make their own operating decisions, and has promoted the tapping of potential within enterprises for an increase in economic returns.

Initial reform of the country's property rights system has begun to demolish the old economic management methods, and the entire economy has begun to come alive. However, the various problems that have existed for a long time, and that have frequently cropped up in the country's economic development are poor economic returns, poor returns from investment, inflation of investment, and inflation of consumption. During the past 2 years a certain amount of currency inflation has appeared as well. The state assets that form an overwhelming part of total assets in the whole society really remain the responsibility of no one. The various government departments are responsible for output value, profits, tax collections, investment in fixed assets, the supply of circulating capital, etc., with no agency being designated responsible for property administration and management. Numerous reasons account for these various problems, and continued promotion of the contract responsibility system helps solve them. However, in a fundamental sense, the key to solving these problems lies not in how thoroughly the contract responsibility system is promoted, but in more thoroughgoing reform of the property rights system.

Study of the tasks to be faced in reform of the property rights system requires renewed realization of conflicts between basic thinking and the implementation of ideas in urban reform during the past more than 10 years. The basic line of thinking in reform of the country's urban economy since 1978 has been to stress reform of relations between the state and enterprises, while slighting reform of relations between the central and local authorities. This choice stemmed from a critical summarization that theoreticians made of experiences in reform both in China and other socialist countries during the early period of reform. On the basis of such a summarization of historical experiences, China's reforms gradually moved along the road of steady expansion of enterprises authority to make their own decisions, and since the central authorities could not exert control directly

down to the primary level in enterprises, the economic management authority of local governments at all levels also expanded gradually. To this very day, the complete process of economic reform of the state economy is actually manifested in a process whereby the state-owned economy's ownership system is maintained intact while management rights are constantly being transferred by central management agencies to local governments and enterprises. The existing property ownership system is characterized by the co-existence of undiversified property rights and diversified management rights, property rights being nominally concentrated in the state, and management rights being dispersed among central government agencies, local government agencies, and in the hands of enterprises. Profound contradictions exist between such centralized authority over property, and decentralized management authority, and these contradictions are the source of a series of major problems.

First, the existing state property rights system restricts full operation of the role of the laws of value, making impossible the full implementation of the principle of exchange of equal value. This results from China's existing financial system being founded on a centralized state property rights system in which the financial system possesses a powerful redistribution function. Under the present system, enterprises do not exchange commodities for currency in markets on the basis of exchange of equal value, a value being created for each item. This is only a form of exchange of equal value; inasmuch as after the exchange, all profit realized has to be adjusted through the financial system. If one enterprise creates a lot of profit, and another enterprise creates little profit or even shows a loss, a greater portion of the former's income will be siphoned off through government financial channels, and will go through a certain procedure and channels to be converted into income for the latter. Such a system is, in fact, a microcosm of relations between different sectors and different regions in China. Regions and sectors that have little income cannot provide greater income in the market; nevertheless, they can get more investment from higher authority to expand the size of their assets, and to increase their output capacity. In terms of the whole value movement process, this is only a "partial exchange of equal value." As a result of reforms made to the financial system and the contracting system in recent years, the foregoing mechanism has changed; however, though the "large common pot" for income has been destroyed, the "large common pot" for assets remains substantially unchanged. Because of the existence of the solid "large common pot" for assets, the mechanism whereby the superior wins out and the inferior is eliminated cannot play a role; competition is actually very undeveloped; and since competition is lacking, efficiency is lacking too; and this has a direct bearing on returns from the total state-owned economy.

Second, the existing state property rights system is the root cause of the inflation of investment and poor returns from investment. In commodity economies in general,

investors are always concerned about investment costs and returns. Operation of the law of value makes investors willing to invest and dare to invest only when anticipated returns from investment are at least higher than interest rates that banks are paying. When anticipated returns are lower than bank interest, there is no benefit, or a negative benefit, from investing, and investment risks are borne by investment entities. This mechanism effectively restricts investors' investment, and increases returns from investment. In China's state-owned economy, since there are no limits on property rights, and since state-owned enterprises frequently are raised to a higher level or transferred to a lower level, with no mechanism whereby their own property losses can be used to compensate for the loss of investment, virtually any investments, including investment in projects that cannot make a profit when they go into production, show partial returns. As far as central government agencies and local governments are concerned, Even if a construction project itself makes no profit, it can solve the problem of employing a considerable amount of labor, or it can increase the amount of assets managed or output value, create a certain market for other industries, etc. Given such conditions of investment cost and very low risk, investment demand is virtually unlimited. During the several years since the change in China from allocation of funds to a loan system, no returns have been realized from quite a bit of investment, and for numerous projects the change from funds allocation to loans was merely a formality. Results of reform show that interest methods and loan repayment regulations are substantially unable to reform the way in which investment is made in the state-owned economy, and this is the root cause of investment inflation. In recent years, certain departments, provinces, and cities have instituted a "contract" financial system. This "contracting" is simply a contracting of overall output capacity. Since the limits of property rights have not been defined, there is no way to exercise control over investment inflation mechanisms. Instead, as a result of overall output capability contracting, local interests and overall output capacity are linked, and this encourages contracting units or provinces and cities to do more in the way of seeking high investment, expansion of the amount of investment being used as a method to increase output. This inflates investment in just the same way as "water injected under pressure to extract petroleum from wells."

Third, the prevailing state property rights system blocks the flow of the essential elements of production, and obstructs optimum structural balance. In recent years, the extent of control exercised through command style planning has decreased steadily, but the anticipated markets have not materialized. A new trend has been the increased isolation of regions in certain respects. Some established industrial bases, or established enterprises, have been limited by raw materials shortages, so they are operating under capacity. Meanwhile processing enterprises in some backward regions are hurrying to begin operation, relying on administrative backing and using

antiquated techniques, and competing for raw materials with large industrial cities. One main reason for this problem is inequitable prices, i.e., too low prices for raw and processed materials, and overly high prices charged by processing industries. Yet another extremely important reason has been overlooked, namely that assets ownership rights are vested in the state, while management rights are vested in different local governments or departments, and local governments and departments cannot transfer property rights among themselves since a mechanism for the flow of property rights is lacking. Provinces having raw materials producing areas cannot buy enterprises in industrial base cities, nor can they buy shares in established industrial enterprises. Consequently, provinces having raw materials producing areas are themselves forced to operate backward processing industries. In this sense, the fundamental problem lies in the centralized property ownership system within the state-owned economy militating against the rational flow of property rights, thereby blocking optimized organization of the essential elements of production.

Fourth, the prevailing state property rights system is the economic basis for the system that creates barriers between higher and lower, or different departments or regions. A complex economic system founded on centralized property rights can only be a system controlled by higher and lower administrative departments. In a situation in which higher and lower levels (central government departments or local governments at various levels) have administrative authority, problems in the nature of barriers between higher and lower authority are bound to be created. Therefore, solution to problems involving barriers between higher and lower authority requires reform of the prevailing centralized property rights system in the state-owned economy. If this property rights system can be decentralized, a new situation in which property rights are melded is bound to develop; then financial entities in different regions will hold shares, and make mutual investments, narrow regional isolation policies thereby gradually being eliminated in a natural process.

The foregoing analysis of the prevailing property rights system's shortcomings demonstrates the inherent link between the centralized property rights system of the state-owned economy, i.e., the "large common pot of property," and various major problems existing in development of the country's economy. The conclusions of this analysis argue for making reform of the state property rights system the main orientation of economic reform over the medium and long term. Theoretically, there are several specific forms of reform that may be chosen, such as a change to collective ownership, enterprise ownership, stock share ownership, group ownership, or even private ownership, etc. Theoreticians have numerous ideas about the various foregoing choices, which may be generally divided into advocacy of public ownership, and advocacy of private ownership. Changing of the state ownership system to a private ownership system is neither desirable nor possible in China, except

in the case of small enterprises and a small number of medium size enterprises. The reasons are as follows. Though the private ownership system has played an extremely important role in the development of some countries of the world, it is not the single best method for economic development. Genuine promotion of a country's more rapid development at the expense of a departure from a commodity economy and markets will not do, but for the main component to depart from the private ownership system is not necessarily unworkable. This is because, although a private ownership system is rather strongly restrictive and competitive, providing fairly high economic efficiency in the microeconomic realm, the coordination of microeconomic benefits and social benefits is usually rather difficult. International experience shows fairness and efficiency to be two objectives that society pursues. At different stages of development, different countries value these two goals differently. Just as a private ownership system helps solve the efficiency problem, so does the public ownership system help solve the fairness problem. Even though fairness and efficiency are two social goals, each of the two different ownership systems have their own reasons for being. As of now, the public ownership system has only slightly more than half a century of practice in the world, and it has scored substantial achievements, but these achievements were scored largely by rejecting the old commodity economy system. Through a combination of reform of the public ownership system, and reform of the economy's operating system, further improvement in the allocation of resources under socialist conditions will be possible for the hastening of economic development and social progress.

III. A Plural Ownership System Forms the Basis for the Operation of China's Socialist Commodity Economy

Reform of the property ownership system must first answer the following two questions: First, what is the basis for selecting a property rights system? Second, what is the basic structure and basic features of the property rights system that is the goal of reform?

A. On the Issue of the Basis for Selecting a Property Rights System

In socialist economic theory and practice, there have been several theories and property rights systems to go with them. Each of these theories has its own positive significance; however, one common shortcoming in the method of study has been that ownership theories put too much emphasis on analyzing the ownership relationships of the means of production. These analyses also neglect resources allocation theories, with the result that they study only means of production ownership problems, and do not study the question of the allocation of publicly owned assets. Actually, the problem of the ownership of wealth, and the problem of the allocation of resources must be studied jointly; if either one of the two is missing, a complete public ownership theory cannot be

devised. Of crucial importance is the need to be innovative in study methods, jointly studying resources allocation theories and wealth ownership relationship theories, objectively describing the operation of a socialist publicly owned economy and the benign cycle mechanism, and exploring the mechanism that enables the effective allocation of resources. The widening of horizons to the two aspects noted above can not only avoid just dwelling on, and going around in circles, about the ownership of the means of production, but also helps the large scale assimilation of all the outstanding achievements of resources allocation theory in modern economics in the process of studying the effective operation of socialist ownership systems. It can also help in the application of the results of the study of public ownership theory to economic practice, thereby making proper advantageous use of the public ownership economy.

During the early 1950's, some socialist countries raised suspicions about the socialist public ownership system, i.e., state ownership system theory, and they actively probed theories through practice. In the course of practice, Yugoslavia produced a new theory that maintained that the contradictions between the socialization of production and private ownership of the means of production simply means that the private ownership system should be replaced by a public ownership system, but not necessarily by a state ownership system. They proceeded from a self-governing theory whereby workers and the means of production are directly linked, the workers, in their role as masters, taking control of the means of production to establish a pattern of socialist self-rule property rights. The self-rule component in this pattern is pluralistic, and economic operations are market regulated.

One of Yugoslavia's experiences was to destroy traditional concepts about the ownership issue to inspire a new understanding of the property rights system in society, and to provide new choices. International experience and the study of contemporary economics show that a country's property ownership system should be determined on the basis of the economic operating mechanism at work in the society, for example, a national ownership system that meshes with the mechanism for plan regulation and operation, and a plural ownership system that meshes with the economic operating mechanism for market regulation. Furthermore, the formation of the economy's operating mechanism is determined by the national economic growth pattern. Countries pursuing a forced growth strategy usually require greater state control over resources in accordance with economic development needs; thus, they use an economic operating mechanism in which authority is centralized to a large extent. During the stage of extensive economic growth, implementation of a fairly centralized economy's operating system is also easy. Conversely, in a normal growth pattern, during the intensive stage of economic development, a state unified plan operating mechanism will not help resources allocation, and will generate within the economy a demand for reform of the operating mechanism.

The pattern of China's economic growth shows, overall, that a change toward intensivity has begun in which an expansion of reproduction is paramount, in a movement toward a new pattern of development. This will require study of the problem of reform of the economy's operating mechanism. During the Sixth 5-Year Plan following the 3d plenum of the 11th CPC Central Committee, theoreticians focused study on plan and market problems, reflecting the need for reform of the economy's operating mechanism. Discussion of plan and market problems has gradually declined in recent years, while discussion of property rights problems has increased, showing both the depth of theoretical study and the emergence of contradictions between the new economy's operating mechanism and the property rights system that require solution. Experience in international development shows that, over the long run, there is a strict logical correlation between the economy's operating mechanism and the property rights system, namely that an economy's operating system has only one corresponding property rights system. The state ownership system and the plan regulation management system correspond to each other, and the market regulation operating mechanism and the multiple property rights system correspond to each other. International experience also shows that, over the short run, the corresponding relationship between the property right system and the economy's operating mechanism is not strict. For example, during war time, Germany, with a private ownership system, used an economic operating system in which state regulation was paramount. Following economic reform, Hungary, with a predominantly state ownership system, abolished command style plans. Following reform, China, in which the state ownership system holds a leading position, gradually reduced command plans and the ratio of market regulation became increasingly great. However, such an integration of the property rights system with the economy's operating mechanism is frequently accompanied by fairly high socio-economic costs, including various kinds of economic loopholes and frictions that lower economic returns, etc. When everything depends on victory or defeat in war, such a relatively high social cost is acceptable. When a complete change from an old to a new system is difficult, reform of the economy's operating mechanism first, with reform of the property rights system lagging behind for a certain period of time, is also acceptable. However, such a situation cannot endure for long. The ever rising socio-economic costs will force society to make a choice between the economy's operating system and the property rights system, either making the property rights system be consistent with requirements of the economy's operating mechanism, or making the economy's operating mechanism suit the requirements of the property rights system, either advancing or retreating.

During 10 years of economic reform in China, the orientation has become increasingly clear. Reform tasks include both reform of the economy's operating system, and reform of the property rights system. The direction of property rights system reform is not to change from

state ownership of assets to private ownership of assets, but rather reform of the publicly owned assets operating system more efficient operation of the publicly owned assets system.

B. Basic Structure and Basic Features of a Plural State Property Rights System

In reform of the state-owned assets operating system, a general pattern of developing the effective management of assets in a commodity economy that is based on the operating features of a capitalist economy may be used for reference. As regards a capitalist economy, there are three property management rules of importance beyond the private ownership of property. The first is the competitiveness of property management. In the process of competition, the success of the best and the elimination of the worst is reflected in an increase or decrease in the assets of different owners. Second is the liquidity of different forms of assets, i.e., different kinds of assets can be conveniently converted, real property (plants and land) being converted into monetary assets (stocks, bonds, or even cash), or vice versa. Assets can also move in space. Third is the urging along, the limitation, and the supervision exercised by the owners over the managers. This is a basic requirement for the effective management of assets, and it is also a basic requirement for insuring optimum marshaling of the essential elements of production. The foregoing three stipulations are necessary requirements for the rational allocation of resources in a capitalist economy. If there is only private ownership of property in such a society without any rules for the management of property, efficiency in the allocation of assets would be bound to decline.

How to apply the rules used in a capitalist economy for management of assets in a socialist economy, while still maintaining the public ownership of property, is a problem requiring study. It seems that a socialist economy not only has to "simulate markets," but also has to "simulate capital" in the building of a new property rights system. The main features of such a system are as follows:

First is a change from centralized state ownership of property to multiple public ownership of property. This means legal clarification that property rights for state-owned property is vested in the central, provincial, municipal, and county levels of government, municipalities and counties being the foundation. It also means defining existing managerial authority at all levels as property ownership authority. The reason for so doing is as follows: First, the existing various levels of government and publicly owned property are naturally linked. In a socialist economy, only a government can represent mass interests as the owner of property. Moreover, among the various levels of government, it is municipal and county governments that have the closest links to enterprises and markets, and who most help the effective management of enterprises' assets. Therefore, it is municipal and county governments that should hold

most of the property rights for publicly owned property. Second, needs for development of the country's economy show that complete reliance on markets in readjusting the industrial structure and balancing regional interests is not the best choice. China is a vast land in which the economic development of industries, regions, cities and counties is uneven. The central government and provincial governments must play an active role in development, and this requires that both the central and provincial governments control a substantial portion of publicly owned property rights in order to be able to regulate the structure of industry and the structure of regional interests.

Second is the gradual separation of the administrative functions and the ownership functions of governments at all levels for the creation of numerous publicly owned property management entities, meaning all kinds of property management companies (investment companies, foundations, etc.). So long as the central government and local governments possessing ownership rights for public property retain their authority for evaluating returns from property, for the sharing of benefits, and for deciding the agencies to manage property, complete management authority for publicly owned property is to be entrusted to property management entities. This means that all state-owned enterprises as well as the creditors rights and liabilities of governments at all levels are to be assigned to individual property management entities. These entities are to be run entirely as enterprises, assuming responsibility for their own profits and losses; they are also to be equal legal persons and not administratively subordinate. Their basic function and responsibility is to make assets grow, and their basic management task is to make investment decisions (including the building of new enterprises, the purchase of debentures and stock certificates issued by the state or other companies, and the purchase and sale of enterprises), and to take investment risks as assets increase and decrease.

Under this new property rights management system, a new relationship will exist between owners and managers. For enterprises, the property management entities will be the sole agencies representing the owners. This will solve the present problem of individual government units acting as representatives of owners, but not taking responsibility. The job of property management entities will be primarily to decide major investment policies, to regulate the property mix, to be responsible for the selection and hiring of managers in enterprises under its jurisdiction, and to send owner representatives to shareholding enterprises, etc. The task of enterprises is to organize production and management in enterprises, the two being responsible for a separate division of labor and functions. Since government will mostly evaluate returns from property in property management entities, by which is meant the speed of increase in the amount of property and returns from property, and since individual property management entities will be in competition with each other, the dual forces of government and

markets will force property management companies to do all possible to give enterprises full management rights. If it happens that the greater the authority of an enterprise, the greater the returns, and the greater the increase in assets, then the greater will be the accomplishment of the property management company. This mechanism forces property management companies to do whatever their own interests require, and it also requires that they turn over management rights to enterprises, as well as protect the interests of enterprises, and ultimately shoulder risks in their role as owners. Enterprises will possess greater management rights than before.

Third is the establishment of competitive property management markets. In these markets, individual property management entities and individual enterprises will compete. The mechanism for rewarding the superior and eliminating the inferior will produce constant readjustments of the property mix. Some property companies that manage poorly will see their property dwindle, while it will grow for others. As time passes and competition develops, changes will occur in the amount of property held by different governments, increases in some cases, and relative decreases for others. This result and this mechanism will both stimulate and restrain governments, and enterprises in their role as wealth producing entities, will attain full rights to make their own decisions, and entrepreneurs will truly become a necessity in society. Over the long term, property rights markets will be able to institute a stock share system of operation, management of property drawing support from the stock share system. Alternatively, a non-stock share system of operation may also be instituted with direct investment in the setting up of enterprises, and in the buying and selling of enterprises.

Fourth, returns from property management are to be distributed on the basis of the common interests and needs of governments at all levels, individual property management entities, and enterprises. If China's economic reform gradually turns in the direction of such an economic system that "simulates capital," the problem of a lack of risk takers can be solved. In the process of economic development, the existence of a competitive property management mechanism and multiple property management companies can effectively improve the situation of property management with no one assuming responsibility. This will enable enterprises to move in the direction of maintaining the best output from a combination of elements at the lowest average cost, thereby optimizing the allocation of resources.

IV. Theoretical Logic and Practical Sequencing of Property Rights System Reforms

Theoretical assessment shows that effective operation of the public ownership system will require control over three interrelated logical links, namely, defining property rights, management of property rights, and the liquidity of property rights. An inherent relationship

exists among these three links. In a model publicly owned economy, the sensible definition of publicly owned property rights is a prerequisite for effective operation. Once property rights relationships have been defined, a good job of property rights management will inevitably be called for, requiring the formation of bodies that can effectively manage public property. In order to keep property safe and make it increase despite a constantly changing market environment, all competitive public property rights management entities will be bound to demand a smoothly operating mechanism to convert the form in which property is held, i.e., a property rights liquidating mechanism. Given these conditions, this is the only way in which the allocation of publicly owned assets can be made rational at regular intervals.

However, theoretical logic is not the same thing as practical logic. China's traditional economic system, which has been in operation for several decades, has developed tremendous inertia and traditions, as well as economic and technical relationships based on tradition, which make it very difficult to hammer out real reforms in accordance with theoretical logic. Specifically, under present conditions, it will be very difficult within a short period of time to redefine state-owned property rights nationwide in accordance with the operating needs of the economy, and property ownership relationships cannot be resolved in advance of the early period of reform. It appears that the real choice may be that the final link in theoretical logical will have to be the very first link in actual reform, i.e., a progression from a transfer of property rights to the definition of property rights to the management of property rights, reform of the property rights system going, in effect, from a transfer of property rights and the beginning of flow.

Initial practice with property rights transfers shows convincingly that the transfer of property rights inevitably promotes a redefinition of state property rights, and inevitably brings about the destruction of the abstract, centralized state property rights system, property rights being defined in terms of needs for the effective operation of the publicly-owned economy. A look at actual examples in property rights transfers that have occurred in various places shows that government at all levels have begun to exchange property rights in their capacity as owners of the property rights of enterprises under their jurisdiction.

The transfer of property rights not only promotes a redefinition of state property rights and initiates China's second reform of the means of production ownership system, but also plays a multifaceted role in the direct promotion of economic development.

It makes for optimum allocation of society's resources, and the optimum industrial mix and product mix. As a result of the transfer of property rights, enterprises having good economic returns, and products that meet the needs of society, develop and become strong because

they obtain, for compensation, stocks of the essentials needed for production. At the same time, property rights transfers enable not very well managed enterprises to get a new lease on life.

It stimulates fairly rapid development of the market system. Property rights transfers will stimulate the growth and development of commodity, capital, real estate, and employment markets.

It provides soil and a foundation for the development and strengthening of China's contingent of entrepreneurs. The transfer of property rights both generates a need for entrepreneurs, and causes plants or enterprises to be built in various places or by different enterprises without regard for jurisdictional lines, brings a gradual separation of government administration and enterprise management, and gives entrepreneurs a free hand in operations, providing a stage for them to display their talents. At the same time, the existence of a takeover mechanism increases managers' risks, and a mechanism for rewarding the superior and eliminating the inferior begins to operate among the ranks of entrepreneurs.

It accelerates economic and cultural exchanges between regions, enabling lateral economic ties to advances to a new stage. The transfer of property ownership rights through purchases results in a very great decrease in psychological and profit obstacles to technology transfers from advanced areas. Moreover, in order to obtain advanced managerial experience and technology, backward areas can go to developed areas to buy enterprises. Local governments in areas where plants have been purchased not only can convert their material assets into monetary assets, but their interests can continue to be guaranteed through tax collections, and they can obtain increased returns from benefits realized as a result of enterprise reorganization.

It helps vitalize use of the fixed assets and associated liquid assets that governments possess. Development of property rights transfers will confer extremely great fluidity on a substantial portion of enterprise property owned by governments, switches between the material and the monetary forms of property becoming very convenient. This will promote a profound transformation of publicly owned asset management methods, and will greatly strengthen the ability of both the national government and governments at all levels to regulate the economy.

It will help break down the barriers between upper and lower echelons and promote the separation of government administration and enterprise management. Local governments lack authority to control directly the property rights of enterprises not under their own jurisdiction. Furthermore, they also find it difficult to exercise direct control over enterprises that are under their own jurisdiction, but that are scattered in other provinces or municipalities. Property rights transfers will enable governments at all levels to shift their attention gradually to

looking after basic facilities in their own area for a gradual solution to the problem of separating government administration and enterprise management.

It will help optimum allocation of newly added assets. Because fixed assets cannot be readily liquidated, for a long time the state has had to rely on new investment to regulate the economic structure. During the past several years, the state has annually allocated more than 100 billion yuan in new investment for the purpose of regulating the economic structure, yet results are far from ideal. If assets on hand (the liquidation of fixed assets) can be reformed through the property rights transfer mechanism, full use can be made of available social productivity, property on hand thereby becoming extremely flexible, and enabling a change in the pattern of resources allocation. Such a readjustment of assets on hand is bound to bring about an increase in the amount of investment (i.e. new investment) resulting in a re-apportionment of new investment and an end to two dimensional expansion and duplicative construction.

It will bring a shift in the functions of government departments. Independent property ownership is a prerequisite for the transfer of property rights. The advent of property rights transfers will enable governments at all levels to put on their daily agendas at once the founding of state property management entities. These entities will be primarily responsible for multiplying assets, and the buying and selling of enterprises will also be their job. Thus, government control of enterprises' "production management" can become "property management."

Reform of the country's property rights system covers a huge field, and it is a reform that will produce very great stimulation. During the past 2 years, definite progress has been made in property rights system reform theory and practice. With constant efforts, medium and long term reform goals will gradually become clear. With this as a foundation, practice will gradually lay the foundation for a new economic system, and create favorable conditions for the country's economic development.

Need To Establish Enterprise Property Rights Market Discussed

40060275 Shanghai SHIJI JINGJI WENHUI [WORLD ECONOMIC FORUM] in Chinese
No 6, 5 Dec 88 pp 11-15

[Article by Yu Tijun 7411 1912 0689: "On the Establishment of a Socialist Enterprise Property Rights Market"]

[Text] The basic strategic goal of China's restructuring of the economic system is to establish a new economic order with Chinese characteristics in which "the state regulates the market and the market guides enterprise." To achieve this strategic goal, we must rely on thorough enterprise reform to remodel the microeconomic foundation, and we need to change the government's functions and convert its direct control to indirect control at the

macroeconomic level, and we must also vigorously develop the socialist commodity economy in order to establish a unified socialist market system.

After a decade's reform, China's hard work to establish a unified socialist market system is paying off handsomely. We have slowly developed new markets with Chinese characteristics, including a capital goods market, consumer goods market, fund market, technology market, information market, labor market, and real estate market. But strictly speaking, so far, the reform has only scratched the surface of the market system; they have been concerned primarily with enterprise input and output and have not tackled the more profound issue of enterprise property rights. We should realize that of all the mechanisms intrinsic to the commodity economy which regulate the flow of the key elements, the most important is the mechanism which circulates a multitude of elements at the same time, that is, the buying and selling of enterprise property rights. Enterprise property rights market is an organic component of the unified socialist market system. Cultivating and developing an enterprise property rights market not only can expand the market scope and promote the thorough development of other markets but can also push the superficial market reform to greater depth and give impetus to the thorough reform of the entire market system and in turn facilitate the realization of the strategic goal of the restructuring of the economic system.

I

The formation of the enterprise property rights market is the natural consequence of China's thorough restructuring of the economic system. So far, China has been swept by three waves of enterprise reform:

Enterprise reform which started with the delegation of authority and the yielding of profits can be looked at as the first wave of enterprise reform in China. Urban economic system reform marked the beginning of expanded enterprise rights of self-determination. At first, the focus was on the delegation of authority, attempting to "unshackle" enterprises to enable them to run their business with greater flexibility and to participate in market competition. Later, reform was implemented to replace profit delivery with taxation, shifting the focus to "yielding of profit" in an attempt to let enterprises control the use of their after-tax profits to add momentum and vitality to their development. The delegation of authority and yielding of profit revived enterprise activities, but because the reform failed to tackle the core problem of perfecting enterprise operating mechanisms, enterprises were not energized.

Enterprise reform which featured the enterprise contracted management responsibility system can be deemed the second wave of enterprise reform. The contracted management responsibility system is based on the concept of the separation of ownership and management and is a big step forward compared to

simple delegation of authorities and the yielding of profit. It has ample vitality in improving the enterprise operating mechanism and reversing the downward trend in industrial output and state revenues. But because the contracted management responsibility system has been promoted without changing the existing enterprise relationship and asset composition, it still cannot resolve the ill-defined property rights relations and the lack of budgetary restraint in enterprises. More serious is that this reform may very well make permanent the irrational disposition of the stock of assets.

Enterprise reform which features the buying and selling of enterprise property rights will be the third wave of enterprise reform in China. The formation of an enterprise property rights market not only is the natural consequence of the thorough restructuring of China's economic system, it will further promote thorough enterprise reform, perfect the socialist market system, and change the government's management functions, and in turn, it will bring us closer to the format targeted by this country's economic reform.

The establishment of an enterprise property rights market is significant in many ways:

One, it facilitates the proper flow and the scientific recombination of the key productive elements:

All along, rigid segregation of central and local authorities has prevented enterprise assets and a multitude of other key productive elements from circulating properly between different regions, departments, and enterprises, and as a result, on the one hand, there is an acute shortage of assets, and on the other hand, many assets are idled. Statistics show that at present, China's stock of fixed assets is valued at over 700 billion yuan, and one-third of that is failed businesses or idled assets, meaning that more than 200 billion yuan are idled or wasted. If there is an enterprise property rights market, it will remove the central-versus-local segregation of funds, equipment, land and other key productive elements; it will create a realistic way to solve the problem of "sunken" fixed assets and current funds, speed up the transfer of materials and resources from low efficiency to high efficiency enterprises and regions, and recombine the key productive elements scientifically according to the principles of economies of scale and specialization.

Two, it helps to salvage the unprofitable enterprises and increase social benefits.

The existence of many unprofitable enterprises has been a serious problem in China's economic construction. In 1987, China's state-run industrial enterprises lost as much as 4.5 billion yuan. Over the years, China's unprofitable state-run business-oriented enterprises have always relied on government subsidies to survive. In the early 1980's, in an effort to consolidate the money-losing enterprises, administrative measures were used to close, suspend, merge, and convert many enterprises. But the

result was unsatisfactory. In recent years, the state has turned to loss-reduction contracting and other measures, and although they have been useful to an extent, they have not turned the situation around. Theoretically, a simple and effective way to solve the chronic money-losing enterprise problem is to let enterprises declare bankruptcy, and China has promulgated an enterprise bankruptcy law and has begun to put that into practice. But China is in the process of converting from an old to a new economic system, and reforms which must accompany enterprise bankruptcy practices are still on-going, and the social-economic environment is not ready for enterprises to declare bankruptcy. We must find a steady and effective way that is compatible with China's present conditions to salvage enterprises that are operating at a loss. By establishing an enterprise property rights market and let the successful and profitable enterprises buy out and take over the poorly managed, money-losing enterprises will rescue and revive the bankrupt enterprises, and it will also allow enterprises with good market prospects and which desperately need to increase their productive capacity to expand. As far as the state is concerned, it not only gets rid of the financial subsidy burden but it can also use the money it gets from the enterprise sales to strengthen the state's key projects and social infrastructure and in turn improve the macroeconomic performance and increase social benefits.

Three, it facilitates the reform of the investment practices and improves overall investment performance.

The lack of funds is one of the main constraints hampering China's economic development, but we are still trying to add more assets each year by striving for extensive growth through expanded reproduction. As a result, each year, there is an appeal to reduce the scope, and each year the investment volume keeps growing, and the overall return on investment keeps falling. This symptom is attributable to the existing investment practices which basically ignore economic performance and support every project without exception. Circulation of enterprise property rights can turn this situation around. If the profitable enterprises can take over the unprofitable enterprises through outright purchases, then in the future, the state's investments will be diverted to the more advanced enterprises, and the return on the newly added investments will be much higher. Furthermore, with the establishment of an enterprise property rights market, many profit-oriented investments will turn to existing enterprises, changing the traditional investment method which required appropriating land, building new factories, and buying new equipment.

Four, it will promote the substantive development of lateral economic ties.

Since the reform, although some lateral economic ties have been forged, basically they are still elementary relationships where one party supplies what the other needs, and in many cases, the relationship is less cordial than it appears. Moreover, because of the "three

fixeds"—fixed enterprise ownership system, fixed subordinate relationship, and fixed financial channels—advanced management methods and technologies cannot be transferred in an effective way. With the establishment of an enterprise property rights market, advanced enterprises can purchase the mismanaged enterprises even if they are in a different region or belong to a different department. They can reorganize and reform those enterprises and make technological and management changes. This will promote the recomposition and redistribution of personnel, funds, technologies, facilities, materials, and other key productive elements among the different regions, different departments, and different enterprises, improve the composition, and maximize the strong points and minimize the shortcomings. While making substantive progress in establishing lateral ties, we should thoroughly integrate the assets to give full play to their collective strength.

Five, it facilitates the perfection of the socialist market system.

The establishment of the enterprise property rights market will put enterprises, the sum total of the key productive elements, into circulation. This necessarily will give impetus to the entire reform of the market system. When enterprises can be bought and sold in the market, the price of land will be reflected in the competitive pricing of the assets and will become a part of the exchange price of enterprises, giving impetus to the formation of a real estate market. The formation of an enterprise property rights market creates two problems: how to finance the purchases, and what to do with the workers in the auctioned-off enterprises. These problems in turn will add momentum to the reform of the financial and labor markets.

Furthermore, the formation of enterprise property rights market will help define enterprise property rights relationships and rectify the many defects created by the idle publicly-owned enterprises under the traditional public ownership system and will have a very practical and positive effect on guiding consumption and turning consumption funds into productive funds, and it will provide a bigger arena where enterprises can make their own management decisions and bring up more distinguished entrepreneurs.

II

The core of the establishment of a socialist enterprise property rights market is to break the regional and departmental property rights boundaries and allow the relatively large-scale buying and selling of enterprise property rights at different levels and by different methods.

The transfer of enterprise property rights should be carried out at several levels. The first level can be between two enterprises which are in the same trade and which produce the same kind of product or engage in the

same business. The second level can be between two enterprises in the same trade which handle related products but do not produce the same kind of product and are not in the same business. The third level can be between two enterprises in different trades and whose products and businesses are entirely unrelated. At the same time, enterprises in the same region and the same department can buy and sell enterprise property rights, and even enterprises in different regions and different departments can also trade property rights. We should encourage and support the transfer of property rights between state-run enterprises, between collective enterprises, and between state-run and collective enterprises to improve the operational efficiency of the property rights in the public-ownership system. We should also allow the transfer of property rights among state-run, collective, and private enterprises. Some small state-run industrial enterprises may be sold to private enterprises or individuals. In addition, we can consider auctioning off individual workshops or assembly lines of some small, mid-sized, or even large enterprises to foreign enterprises.

Enterprise property rights can be transferred via different methods. It can be in the form of a merger where one enterprise purchases all of another enterprise's assets. It can also be a joint operation where one enterprise purchases some of the other enterprise's assets. A buyer can finance a takeover using his own funds or take over an enterprise by assuming its debts. Profitable enterprises can expand by initiating a takeover. An unprofitable enterprise, in order to survive, can also negotiate a merger and become a subsidiary of another enterprise. From earlier experiences gathered in some areas, the following methods seem most practical:

One, use debt assumption as the condition of the transfer of enterprise property rights. This method is more appropriate for the transfer of property rights between enterprises in the system of ownership by the whole people. The amount of debt assumed usually is not equal to the value of the assets, and in most cases, there are more assets than liabilities, but the reverse may be true in some cases. But even if there are less assets than debts, because the transfer of land-use rights is free of charge at the moment, and the key productive elements obtained can supplement the buyer's needs, many enterprises are more than willing to assume the debts.

Two, outright purchase of enterprise property rights. Most transfer prices should adhere to the principle of exchange of equal value and be assessed based on the net value of the fixed assets plus the amount of current funds actually owned. Considerations should also be given to the amount of credits, debts, arrangements made for the staff and workers, and pension payments among other things. This method is suitable in most cases. It is appropriate in the transfer of property rights between enterprises in the same ownership systems, or even between enterprises under different ownership systems, and it can be used in the transfer of property rights of

enterprises within the same department and region or between different departments and different regions. The money received in the transfer of property rights of an enterprise in the ownership by the whole people system should be handed to the financial department at the same level as the department in charge of the enterprise sold, but the department in charge will be given preference when it applies for use of that money. Money received from the transfer of collectively owned enterprises should be handed to the department in charge of the enterprise sold. If the transfer price is relatively large, and the purchaser is unable to make a lump sum payment, installment payments are acceptable.

Three, the method of first contract and then merge. This means one enterprise enters into contract with another to centralize management rights, and after a period of unified planning and management, tie the economic and technological relationship between the two enterprises closer together and then make a smooth transition to transfer or centralize all property rights as the two enterprises become one.

Four, the transfer of property rights without compensation. This method is suitable for the transfer of property rights between enterprises under the same administrative jurisdiction in the ownership by the whole people system. The transfer of property rights without compensation is based on the old "close, suspend, merge, and convert" methods, but in some ways, this method is different. It does not simply rely on the administrative lease-loan measures; rather, it is based on the principle of voluntary participation and mutual benefit. It improves enterprise performance and meets society's needs at the same time.

Developing enterprise property rights market is the historic trend of the development of China's enterprise reform, but we must proceed systematically, with a positive attitude and with caution, from the small to the large, and from the simple to the complicated. For the first step, we should select trades where redundant construction is a relatively serious problem and where there are more chronic money-losing enterprises and deal with those trades internally first. We can start with the chronic money-losers, and encourage enterprises in the same trade but which are technologically more advanced and better managed to merge with or take over these poorly managed, persistent money-losing enterprises and even enterprises with less assets than liabilities and enterprises on the verge of bankruptcy. For the second step, while developing the transfer of the property rights of small enterprises with compensation, we can consider a pilot program to transfer selected poorly-managed large and mid-sized enterprises by inviting bids locally; this includes selling them to foreign businesses. We can also initiate a pilot program whereby a "corner" (a branch plant or a workshop,) an "item" (a kind of product,) or a "line" (a production line) may be sold to foreign businesses, implementing the "one plant, two system" method.

For the third step, we can emphasize developing regional property rights markets. We can formulate a tentative plan to select a city, a province, or an economic zone nationwide to pioneer a regional property rights market.

For the fourth step, based on experience gathered in the experimental units, we can consider developing enterprise property rights markets nationwide, gradually and systematically, markets which are open to economic bodies under a variety of ownership systems and which span different regions, different trades, and different ownership systems.

III

To foster and develop an enterprise property rights transfer market, we need the encouragement and support of the right kinds of policy, and we need to enact a complete set of policy measures.

One, define the enterprise property rights relationships. All along, China has created a system under which public finance and investment share the same big pot, and as a result, China's enterprise property rights relationship has always been muddled. Even in collective enterprises, let alone enterprises in the system of ownership by the whole people, the once defined property rights relationship has blurred, because the organs in charge have usurped administrative authority to transfer assets indiscriminately. For this reason, in promoting the transfer of enterprise property rights and developing the enterprise property rights market, we must define the enterprise property rights relationships first. With regard to the state-owned enterprises, because the state has created an enterprise management hierarchy, we can consider the principle of whoever has jurisdiction has the property rights. In other words, the property rights of enterprises under local jurisdiction and set up by the local government belong to the local government, and the local government is allowed to transfer those rights. The property rights of centrally-owned enterprises belong to the central government. Enterprises set up by the central and local governments jointly can negotiate over the property rights. As for the collective enterprises, it would require taking physical inventory to establish fund sources to clarify the property rights and determine whether they belong to the enterprise's staff and workers or to an even wider group of people, and then the proper group of owners can determine whether the enterprise can be transferred or auctioned off.

Two, set up a state-owned asset organ. To have independent property rights requires not only a management level which can manipulate the assets directly but also a personified body or a formal representation of legitimate ownership rights. Consequently, we must create a state-owned asset management department just to serve this purpose. As a reform measure, we can consider setting up a state-owned asset organ to be in charge of government investments, and at the same time, it will deal with enterprises on behalf of the state in the capacity as

proprietor of state-owned assets and guarantee the security and propagation of state-owned assets. In the interim stage, government or departments at each level may add a property rights management organ to manage the sale of enterprise property rights.

Three, gather funds to finance enterprise property rights purchases from multiple sources. Faced with an enterprise worth tens of thousands yuan, it is not an easy task for individuals, and even for some enterprises, to raise the necessary money. If, because of limited purchasing power, only a few can participate in the competitive bidding, then either there will be no transaction, or the auctioned enterprises' assets will be undervalued. Both will defeat the purpose of the enterprise property rights transfer. The purchase of enterprise property rights can be financed either by bank loans or by installment payments. Bank loans means upon verifying the qualifications of the purchaser, and provided that the purchaser has a certain amount of assets which can be put up as collateral, the bank will extend a loan to the purchaser who must pay off the loan with interest over a specified period. Installment payments means the buyer pays the seller a percentage of the total cost, based on the closing bid at the enterprise auction. The rest of the money will be paid off in installments over several years as agreed between the buyer and seller in a contract. Interest on the unpaid portion may be based on bank loan rates, specifically to be negotiated by the parties involved. To encourage enterprises to use their own funds to purchase enterprise property rights, the financial institutions can issue bonds or stocks on their behalf to raise funds.

Four, make proper arrangements for the displaced workers of enterprises being sold. The transfer of enterprise property rights refers to the transfer with compensation of the ownership rights of enterprise assets between different owners. The transfer includes machinery, equipment, current funds, grounds, and other key productive elements in material form as well as trademark, patent right, good will and other intangible assets, but it definitely does not include the transfer of workers and other key productive elements. In transferring enterprise property rights, both the workers of the enterprise being sold and the new owner must have the freedom to make choices, and the seller cannot force the buyer to accept the workers. But in consideration of the reality of the tremendous unemployment pressure and the lack of mobility of the labor force in China today, we should encourage the buyer to take responsibility for resolving the workers' employment issue at the time of the take-over. Specifically, there are two possibilities: One, following the same arrangements made for workers of bankrupt enterprises, the aged and the disabled who will have trouble finding work should be permitted to go into early retirement; their pension will be funded by the city. Younger and stronger workers will receive severance pay and be entitled to unemployment pay for a definite period of time. The government will pay for the expenses and will be reimbursed with money received from the auctions. Two, on a voluntary basis, the government's

labor department will mediate the negotiation between the buyer of the auctioned enterprise and its labor representatives, and preference will be given to workers to stay in their former workplace, but at the same time, they are encouraged to find other jobs or take a short training course and get into a different line of work.

Five, promote reforms in the planning, material, price, and finance and taxation systems. The establishment and perfection of the enterprise property rights market require speeding up reforms in the planning, material, price, and finance and taxation systems. The direction of the reforms points to further reducing the scope of mandatory planning and material allocation, further promoting price reform, especially the price reform of capital goods, giving enterprises more choices, and speeding up the cultivation and development of a market for the key productive elements to facilitate the development of the enterprise property rights market. On credit loans, taxation, and the use of foreign exchange and other matters, there should be preferential policies too.

Six, provide legal protection. To ensure the normal functioning of the market for the transfer of enterprise property rights, we need a set of scientific, effective procedures and rules to govern, among other things, the ownership of property rights, the assessment of asset value, and labor insurance for the staff and workers in order to set the behavioral norms of both the buyer and the seller. Therefore, we urgently need to formulate and promulgate rules and regulations pertaining to enterprise auctions. At present, we can start with the formulation of regional rules and regulations, or allow the executive departments to set up some policy-oriented provisions. At the same time, banks as well as finance, auditing, taxation, notary, and other departments should participate in the property rights transfer activities and provide the necessary verification, notarization, and registration services.

Developing an enterprise property rights market is a complicated project. We cannot expect overnight success. We need to explore the matter systematically. To establish and perfect the socialist enterprise property rights market is a glorious mission bestowed on us by history. As the enterprise property rights market is slowly being developed, China's effort to restructure the economy will continue to make phenomenal progress.

FINANCE, BANKING

History, Prospects of Financial Reform 40060267 Beijing JINRONG SHIBAO in Chinese 18 Jan 89 p 3

[Article by Feng Dalin 7458 1129 7792: "Financial Reform in Retrospect and the Problems Ahead"—first paragraph is source-supplied abstract]

[Text] Abstract: A decade of financial reform has smashed the traditional financial system. It has established the

concept of how to implement financial reform to accommodate the commodity economy. It has developed a new scope for finance and enhanced the role banks play in the national economy. But in many areas, reform has not made significant progress. Specifically, among other problems, reform has failed to install an effective macroeconomic control mechanism in the central bank, and consequently, the monetary policies are biased. Also, attempts to operate the specialized banks as enterprises have made little headway, and the interest rate system is still flawed. At present, we are faced with an array of grim situations ranging from the loss of control of the money supply to runaway inflation.

I. Ten Years of Reform in Retrospect

To sum up, a decade's financial reform has accomplished the following:

1. On the matter of financial reform strategy, reform has clearly demonstrated that the "state-bank system" created by traditional economic conditions must be abolished, and in its place, a new banking system compatible with the socialist planned commodity economy should be established. A tentative overall financial reform program has been formulated.
2. It has established the central bank system, separating the banks which issue money from those which extend credit loans, and has created a preliminary financial organization system where the central bank is the leader, the specialized banks play the major role, and other financial institutions share the division of labor.
3. In the last 10 years, banking has been elevated to a status it had never enjoyed before in the economy. The distribution of production and construction funds in society has changed dramatically. Today, more than two-thirds of social production and construction funds are gathered, allocated, and circulated through the banking system; government financed investments account for less than one-third of all investments, replacing the old arrangement of "planning comes first, public finance next, and banks are the least important," or "public finance first; banks last."
4. Reform has opened up and expanded the scope of financial services; it has revived, created, and added new credit instruments, revived and further developed the insurance business, developed foreign banking business, and strengthened foreign exchange and foreign debt management. Banking business is no longer confined to the production and circulation realms but has expanded into fixed asset investment, technological advancement, and other social service territories.

5. Preliminary changes have been made in the credit fund management system, the interest rate system, and the bank's system of planning, and the management by objective method and the contracted management responsibility system have been installed within the banks.

6. Reform has prompted the development of new financial markets. Stocks and bonds are being issued on a trial basis; note acceptance and discounting are being popularized; interbank short-term loan markets and treasury bond exchange markets have opened. At present, a pilot program to open a secondary securities market is underway.

7. Financial legislation has been strengthened and more qualified personnel are been nurtured, and we are beginning to build a modern financial information network.

The accomplishment of the decade-old reform has attracted worldwide attention. In many ways, we are at the leading edge of financial reform among contemporary socialist countries. But China's 10-year financial reform has failed to make significant progress in many areas, and these have become the stumbling blocks in today's financial reform:

One, for a decade, we have formulated a tentative overall financial reform program, but as the entire process of restructuring of the economic system becomes more thorough, and faced with a new set of economic mechanisms, how to construct a new operating mechanism for the entire financial system at this stage, in other words, how should the central bank control the financial market activities and restrain the specialized banks' expansionist behavior in handout credit, and how to guide the economic activities of the industrial and commercial enterprises via the financial markets and specialized banks, is a problem we have just begun to tackle. The objective of the economic reform is to set up an economic system in which "the state regulates the market and the market guides enterprise." As the economic mechanisms change, it necessarily will require the setting up of a financial mechanism compatible with this change, and this indeed has become the biggest problem in the present financial reform.

Two, the central bank still has no macroeconomic control mechanism. In this country, some areas are not yet ready to use the three traditional political tools, and other areas which have tried have not been particularly successful.

Three, 10 years of reform has significantly raised the status and role of banking in the national economy, but at the same time, questions like how to strengthen the independent status of the central bank and how to prevent the various levels of government from interfering with the credit loan activities of the entire financial system are yet to be addressed.

Four, how do we set up an independent currency issuance system and change the practice of issuing money as the means to balance credit payment and receipt and use the issuance of money to control the credit loan volume instead? Particularly, in view of the present inflationary situation, should we adhere to the principle of balancing the legislative branch and the executive branch and

transfer the power to make decision regarding the issuance of money from the State Council to the National People's Congress or the Standing Committee of the State Council? And should the central bank have an independent right to issue money, free of interference from any other department? We have to make a firm decision before these issues can be resolved.

Five, how do we handle the relationship between public finance and banking regarding profit allocation so as to enable the specialized banks to accumulate, supplement their credit funds, balance their income and expenditure, and bear their own risks? To satisfy the above would require a radical reform of the present financial system to remove the shackles which have prevented the operation of specialized banks as enterprises. Banks, like other industrial and commercial enterprises, should implement the separation of profit and taxation. Business tax should be allocated to the central government; the tax rate can be raised to 20-25 percent. Income tax may be shared by the central and local governments, and the rate should drop to 20-30 percent. Regulatory tax should be abolished. In this way, the bank's retained profits which at present are only around 10 percent can be raised to 40-55 percent. The retained profits can be used to supplement the credit loan funds, and eventually the banks can implement the after-tax contract system whereby they can retain a percentage of the above-quota profit.

Six, how can we further expand the fund market and smooth the market interest rate relationship? In the absence of any control tools and policies, decontrolling prices in the commodity market will only give impetus to inflation, but decontrolling fund prices can entice the specialized banks to get into the business with greater enthusiasm on the one hand and protect the financial investments and halt inflation on the other hand. Failing to decontrol fund prices, there is no way to cultivate and form any market mechanism in the financial sector, and the financial market will not see further development.

Seven, there is the question of operating specialized banks as enterprises. Should banking reform at the microeconomic level be synchronized strategically with the promotion of the contract system and the shareholding system in industrial and commercial enterprises? Is the promotion of the contracted management responsibility system within the banking system the breakthrough point of the transformation of specialized banks to enterprise-like operations? Is the transition from the contract system to the shareholding system the basic reform route to the operation of specialized banks as enterprises? In short, the operation of specialized banks as enterprises is one of the most complicated problems with the most ramifications facing China's bank reform in recent years.

Eight, the question of how to deal with inflation. At present, industrial output is overstated by more than 20 percent, and if we discount the inflation factor, real growth has been slow. The responsibility of the banks is

to keep savings and bank deposits from slipping and to control inflation, and particularly today, an immediate problem the banks must deal with is how to enliven bank credit, financial credit, and commercial credit.

Nine, how do we deal with the present inflation and at the same time re-learn and rethink what the strategic core objective of China's monetary policy should be and what the objective has been in the past? Did we pursue a single objective to guarantee economic growth? Should we try to guarantee economic growth and stabilize the currency at the same time? In recent years, the credit loan volume has continued to expand, and every decline in production has triggered an increase in the money supply. We must establish a new monetary policy goal and raise the question once again, is it the purpose of the central bank to support greater production or guarantee the stability of the currency?

Ten, the issue of how to borrow from the West's advanced financial theories and rethink our interest rate policy and replace the present low-interest rate policy with a reasonably-high interest rate policy to guide society's investments.

II. New Problems Facing Financial Reform Today

Today's financial reform is faced with an array of grim situations ranging from loss of control of the money supply to runaway inflation. To explain more clearly the money supply situation in the last 10 years, I will simply divide the decade into 2 periods: the first period lasted from 1979 to 1984, and the second from 1984 to the present. From 1978 to 1980, we saw a high rate of increase in the money supply of 29.3 percent in 1980 and a low rate of 8.5 percent in 1979, and in 1981, the rate of increase was 14.4 percent. The rates fluctuated wildly and was very unstable. Looking at the market at that time, there was no inflation. Why? I agree with the explanation that rural reform had substantially increased the production of agricultural and sideline products which gave impetus to the process of monetarization of China's economy which in turn absorbed some of the excess money supply, and therefore the market was relatively stable and the absolute amount of the money supply was relatively small.

Between 1984 and 1988, rural absorption of the money supply has reached the saturation point, and the money supply has increased faster than in the previous 6 years: the money supply increased 49.5 percent in 1984, 24.7 percent in 1985, 20.2 percent in 1986, and 19.4 percent in 1987. According to most people's calculation, the multiplier is around 2.8, meaning that more than 370 billion yuan of the money supply is currency; this amount exceeds society's total monetary income in 1983 and is more than twice the state revenue.

Many factors contribute to inflation, but the main factor is the excess scale of investment. Throughout this period,

the central bank has been under tremendous external and economic pressure, and many factors have forced the bank to print more money: one, the departments have their economic theory and profit theory; local governments have their economic theory and profit theory; everybody is in pursuit of quantitative economic growth and competing for more output and construction. Two, economic planning and public finance are squeezing the banks; the technological transformation of large and mid-sized enterprises depend on bank loans, and infrastructure needs bank loans too. Three, the central and local governments exert political pressure on the bank's credit activities. Four, specialized banks and other financial institutions have expansionary mechanisms but no self-restraining mechanisms. Under these poor external conditions, the banks have to deal with the following situations:

1. The rate of increase in total output depends almost entirely on bank credit loans, and whenever enterprises run out of production and current funds, they turn to the banks; enterprises have no financial concept.
2. The bloated fixed asset investments are sustained in the end by the bank's printing more money.
3. Enterprises' bloating consumption funds are supplemented mainly by squeezing their own current funds and supported by getting technological transformation loans. There is little room for maneuvering for enterprises to supplement their current funds.
4. Everybody is running a business; a billion pair of hands are reaching out to the banks. Today, it seems that not only are the industrial and commerical enterprises short of current funds, but more seriously, banks themselves are running out of credit loan funds. A survey of many regions shows that the financial system is faced with three crises: one, bank credit crisis: efforts to withdraw money from circulation have run into insurmountable problems, funds can neither get into nor out of circulation, and the banks' three main centers are in trouble. Two, commercial credit crisis: the chain of enterprise default has tightened, and there are more and more cash transactions, and as a result the circulation of goods and materials is now guided by the cash flow. Three, public finance credit crisis: state securities are non-negotiable, and the treasury bond market has slumped.

In short, we are faced with a grim situation, and we must pay closer attention and continue to take emergency measures.

AGRICULTURE

Anhui Reports Progress in Effort To Ensure Bumper Harvests

40060289a Hefei ANHUI RIBAO in Chinese
10 Jan 89 p 1

[Text] In 1988, while implementing the grain-cotton "bumper harvest plan" assigned by the Ministry of Agriculture, Anhui vigorously initiated its own "bumper harvest plan" activities, carrying out projects on 6,205,400 mu; increasing grain output by 244,000 tons, cotton output by 11,200 tons, combined grain and cotton output value by 220 million yuan, and net income by 160 million yuan; and reducing costs by 16.95 million yuan.

In carrying out "bumper harvest plans" last year, Anhui ensured that each county involved in projects strengthened organizational leadership, stipulated that contracts be signed at each level, and drew up practical and feasible technological programs that linked technological service with supply of producer goods and materials and with funding and that accelerated application of technology. Statistics show that the state, the province, prefectures, and counties invested a total of 13,752,000 yuan and supplied 99,500 tons of chemical fertilizer, 1,142 tons of pesticides, and 576.5 tons of plastic film. In project counties, the area sown with improved crop varieties accounted for 93-100 percent of total sown area, the area involved in comprehensive disease and pest damage control programs comprised 80-93 percent of total sown area, and the area practicing double-plastic film cultivation (of rice seedlings) equaled 50-63 percent of the total area suited to such cultivation. Throughout the year, grain projects were carried out on 5,405,000 mu, an increase of 2.2-fold over the previous year; cotton projects were carried out on 800,400 mu; provincial "bumper harvest plan" coverage was expanded from the scattered localities and tracts of the previous year to 2.21 million mu; and the number of counties participating in the plan increased from 11 to 30.

Last year, most prefectures, cities, and counties in the province experienced declines in grain output due to damage caused by natural calamities. Yet most counties implementing "bumper harvest plans" reported increased output and an average rise in grain yield of 42 kg per mu and in cotton yield of 23 kg per mu, and most of these localities experienced improved output over wide areas. In Chuzhou City, yields on 260,000 mu of paddy were 643.4 kg per mu, an increase of 13.9 percent over the previous year. And in Si County, yields on 165,000 mu of soybeans and 125,000 mu of cotton were 126.7 and 89 kg per mu, increases of 20 and 17 percent over the previous year, respectively.

Causes of Crime Under Socialist Systems, Institutions
40050262 Shanghai ZHENGZHI YU FALU in Chinese
No 6, 5 Dec 88 pp 44-45

[Article by Xu Yiren 1776 6654 0088 "Discussion of the Causes of Crimes under Socialist Systems"]

[Text] There has been a traditional view for a long time in our country that socialist societies engender crimes but that socialist institutions do not. This view has prevented us from thoroughly exploring the causes of crimes for a long time.

To be sure, there is a difference between institutions and societies, and the two should not be equated as the same. But institutions and societies are closely related, and a hard and fast line cannot be drawn between the two. The institutions to which we refer are the institutions of certain societies. The societies to which we refer are the societies which have implemented certain institutions. Just as the institutions of a capitalist society are capitalistic, socialist institutions are of the same nature as a socialist society—there is no impassable gulf between the two. The writer feels that the abovementioned traditional view is partial, inaccurate, and unscientific.

To begin with, those who hold the traditional view idealize socialist institutions too much, making these institutions out to be flawless, and confusing the perfected, advanced stage of socialism with the imperfect, beginning stage of socialism. In fact, compared to communist institutions, socialist institutions, especially those of the beginning stage, have many imperfections and defects.

Second, it is inappropriate to categorically state that socialist institutions produce crime or do not produce crime. We ought to adopt a practical and realistic attitude, and make a concrete analysis of the different stages of the socialist development, not lump them all together. We cannot become neurotic and arbitrarily set up forbidden zone of research just because there are some people who hold that socialist institutions produce crime. We certainly cannot confuse the fundamentally different systems of socialism and capitalism and place them on the same footing.

The concrete reasons for criminal occurrence in our country are many and varied and complex in nature. We think that the principal concrete reasons for crimes in our country at current stage of development are listed below:

1) Our society is at the beginning stage of socialism. From an economic standpoint, there still exists a sizeable individually owned economy. According to published data on this subject, the individually owned economy makes up two percent of the total economy in our country. Following the widespread and thoroughgoing implementation of policies to reform, liberalize, and to

be flexible, this proportion may rise further. In some locations, the individually owned economy makes up more than twenty percent of the total economy, and even as much as one third. In addition to the individually owned economy in our country, private enterprises are growing in numbers. At the present time, there are 200,000 to 300,000 private enterprises in our country, accounting for less than one percent of our country's gross value of industrial output (GVIO). It has been estimated that this percentage could greatly increase, since private enterprises in our national economy have not been utilized to the full potential. China allows the existence of individually owned economy and private enterprises, and allows them to develop adequately to a certain degree as make the public-owned economy a principal supplement to socialism. This development at the present stage has more advantages than disadvantages. But the essence of individually owned economy is private ownership, and the existence of individually owned economy and private enterprises is one of the principal reasons causing crime at our current level of socialist development.

2) In our country, antagonistic classes have already been eliminated, but due to domestic factors and international influences, class struggle will continue to exist in certain areas for a long time. This is one of the principal reasons for causing crime at our current level of development. Within the country, there are still hostile counterrevolutionary elements who would destroy socialism, and there are national minority separatist elements. Outside the national borders, there are dispatches of special agents and spies. Although counterrevolutionary elements are not numerous, they are still counterrevolutionaries, and we need to remain clearly conscious of this fact. In addition, there are serious economic crimes and crimes that endanger the public security of our society, which are in direct opposition to the essence of socialism, and which doubtlessly also reflect class struggle.

3) The socialist institutions to which we refer are not abstract institutions, but concrete economic institutions, political institutions, cultural institutions, educational and scientific research institutions, distribution systems, etc. There is no need to deny the fact that these institutions are not perfect; they have many defects. Our country is now implementing economic structural reforms, political structural reforms and other reforms to overcome these defects, so as to allow socialist institutions to be continuously made better. Otherwise, the existence of these defects would necessarily lead to crimes.

4) The corrosive influence of the ideologies of feudalism and the capitalist class is one of the principal reasons for the crimes in our country at the present time. "When the old society perishes, its corpse cannot be buried in a grave. It poisons us, as it decomposes and stinks in our midst" ¹ Lenin was right on target. Strictly speaking, the influence of feudalistic thought in our country is deeply

rooted and firmly established. Now that China is carrying out the socialist construction of Four Modernizations, it resolutely cannot afford to have a closed-door policy. China is now wide open, making frequent foreign contacts, which are steadily increasing. We go out of the country, we invite others in, we do business, we engage in tourism. We import technology and foreign capital. We extensively exchange cultural arts, education and science and technology. As a result, the ideology of the Western capitalist class makes inroads by many channels and ways, corrupting peoples' souls. At the same time, it is inevitable that some fleas, mosquitoes, and even some international criminal activities will eventually seep through. Crimes cannot be made to disappear until the corrosive influence of the ideology of the exploiting classes on people has been completely eliminated.

5) Nonantagonistic contradictions that become acute can give rise to crimes. In our society, there exist a great number and variety of contradictions. There are antagonistic contradictions and nonantagonistic contradictions. Since the antagonistic classes have already been eliminated, the antagonistic contradictions are only a part of those in existence; most are nonantagonistic contradictions. Contradictions always lead to disputes. If the disputes are not dealt with in a timely manner or are not dealt with properly, and become acute, they can produce crimes. In the administration of our judicial system, it has been shown that about eighty percent of the murder cases in China are produced from various kinds of disputes that have become acute. This is due to the contradictions between individual interests and the interests of the country, groups, or other individuals. It is not possible to extinguish individualism during the beginning stage of socialism or even after a longer period of time; it has an objective existence. If men proceed from a selfish spirit, some will go to extremes to satisfy their selfish desires and, acting recklessly, plunge into the abyss of crime.

6) With the development of a commodity economy, there has been a great increase in the number of temptations to commit crime. It is quite apparent that in remote places that are inaccessible and have few contacts

with the outside world, there are fewer crimes and criminal cases. In contrast, in cities and towns that are situated along transportation and communications arteries—particularly those cities that are open to the outside and areas where the commodity economy is developed and markets are flourishing—there are more crimes and a higher incidence of criminal cases. This is because commodities have two natures. The negative aspect of the general property of commodities is an anarchistic, mindless competition that fosters opportunistic thinking, private ownership mentality, money worship, and a belief that money can do everything. Commodity economies are spontaneous, exclusive, and monopolistic. Although we have a planned commodity economy, if it is not extensively controlled, it is still difficult to avoid the phenomena described above, which in turn may lead to an increase in crime. Especially in areas where commodities circulate freely, there is a clear increase in economic-type crimes and property-type crimes, such as smuggling, opportunistic profiteering, embezzlement, bribery, larceny, and fraud. Consequently, there can be no doubt that the number of enticements to commit crimes greatly increases as a commodity economy develops. This being the case, does an increase in the incidence of crime always accompany the development of a commodity economy? In principle, the answer to this question is in the negative. "Accompany" implies an element of necessity, or irreversibility. From the perspective of development in our country, this does not exist. Socialist institutions and capitalist institutions have fundamental differences. Criminal phenomena are cancers that are inherent in the capitalist institutions themselves. Nothing can control or overcome them. Socialist institutions are based on public ownership. Private ownership rights are essential supplements of socialist public ownership economies. If our country adopts economic, administrative, and legal measures to control, regulate, and administer all economic relationships, it will be able to control and reduce the incidence of crime.

Footnote

1. *Collected Works of Lenin*, chapter 27, p 407.

Exchange Rate War, American 'Psychological Warfare'

40060222 *Taipei TSAI HSUN [FINANCE INFORMATION]*
in Chinese No 81, 1 Dec 89 pp 128, 137-139

[Article by Song Huanong 1345 5478 3426: "Taiwan Must Unite Against U.S. Pressure To Revalue the New Taiwan Dollar"]

[Text] The new Taiwan dollar has appreciated from \$1:NT\$40 to \$1:NT\$28 since late 1985. In discussing this matter, many people invariably say, "The new Taiwan dollar has appreciated by such and such a percentage under American pressure." In fact, the Americans did not have much success in pressing the Central Bank. What happened was that foreign exchange racketeers inside Taiwan took the initiative in meeting the Americans half way by dumping large quantities of foreign exchange on a nervous market, thereby inexorably pushing up the Taiwan currency.

Psychological Warfare Gives Market Jitters

United States pressure is not frightening. What is frightening is speculators so obsessed with their personal interests that they have no regard for the general interest. But for them the new Taiwan dollar would not be worth so much today. Nor would the country be so awash in hot money as it is now.

Then there are those ludicrous "star scholars" who, instead of hitting the books in earnest, only want to see their names in the newspaper or on television. They have no clear idea what exchange rate means. But that has not deterred them from writing to criticize their own country in each and every way, as if the Americans did not have enough ammunition with which to attack us. In addition, certain organizations invite foreign scholars unschooled in the Taiwan economy and society to come to Taiwan to "forecast" the extent to which the new Taiwan dollar should appreciate. This so-called "forecasting," which has not been carefully thought out, never fails to unnerve the market. With everybody scrambling to unload their dollar holdings, it is not surprising the Taiwan currency goes up.

No doubt there are some truly learned scholars who put forward incisive and well-intentioned criticisms. It is the opportunists who are really insidious. Every time the new Taiwan dollar has stabilized for a while, along comes somebody spreading rumors that the exchange rate will go up again. A few people even feign "familiarity with American official policies" as if they were acting on behalf of the U.S. government. According to certain irresponsible news accounts, "a U.S. official requesting anonymity says that the exchange rate between the U.S. and Taiwan currencies should be such and such." What the ordinary people do not understand is this: Why does the U.S. official who puts pressure on a foreign country out of national interests want to hide

behind a cloak of anonymity? Is this something one should be ashamed of? In any case, this kind of news always turns out to be self-fulfilling and leads to a more expensive Taiwan currency, the consequences of which are all borne by the exporter.

With all these people maneuvering together, how can the exchange rate stop at \$1 to NT\$28? Even \$1:NT\$25 or even NT\$20 is possible.

U.S. "Open Mouth Policy" Works Wonders

Under these circumstances, the Americans have an easy time. Knowing us inside and out, they open their mouths at regular intervals and easily talk up the value of the new Taiwan dollar. Even though the currency has risen so much already, the U.S. is still singing the same old tune. The main reason is that the tactic has worked so well. It has been dubbed, vividly, the "open mouth policy."

In principle, when we run up a big trade surplus, we should let the currency appreciate. But a majority of Taiwan enterprises are small- and mid-sized concerns incapable of coping with the effects of currency appreciation. All truly patriotic scholars and experts should propose a moderate appreciation of the new Taiwan dollar so that business can adjust gradually. Some people, unfortunately, who would like to see the world plunge into chaos, diligently stir up trouble on the side. As a result, a small rise in the value of the new Taiwan dollar is enough to send businessmen into a panicky scramble to get rid of their dollars. Inevitably the new Taiwan dollar keeps appreciating.

Few people notice that U.S. officials in charge of banking and finance matters have been exceptionally friendly to Taiwan reporters in the last few years; you would have thought that the two countries still had diplomatic relations. They are only too ready to talk at length to any Taiwan reporter who wants some news on the exchange rate. While the reporter out to scoop his competition is overjoyed, the truth is that the Americans have always wanted to use the Taiwan press to broadcast their wishes and push up the exchange rate.

When the Executive Council of the Asian Development Bank held its annual meeting in Manila in late April of this year, the American delegation asked to meet with our delegation. Our government was tight-lipped about this meeting, but the Americans leaked the news a few days beforehand to reporters from Taiwan, not only divulging the time and place of the meeting but also agreeing to be interviewed. They knew only too well that this kind of news would get front page treatment and push up the Taiwan currency yet again. Lo and behold, the new Taiwan dollar did appreciate in late April and early May.

In the last 2 or 3 years, whenever they attend a meeting along with American officials, Taiwan officials in charge of the exchange rate are always invited to "off-site

exchange rate consultations" by their American counterparts. Although both parties express different opinions at such consultations, which are always inconclusive, the meetings are newsworthy and readily affect the Taiwan exchange market. For this reason, the Americans can never have enough of them.

Method of Currency Appreciation Smacks of "Colonialism"

A Taiwan-American industrial and commercial conference is scheduled to be held in Taipei in early December. American officials in charge of foreign financial affairs, who will attend the conference in a personal capacity, will hold off-site exchange rate consultations with Taiwan officials in the course of the meeting. To fulfill their responsibility to come up with news scoops, the press will be covering the event closely and reporting it at length. It is doubtful whether the exchange rate would remain stable at the time.

This method of currency appreciation allows the Americans to make endless demands and foreign exchange speculators to have their way. It also damages the image of our government by giving people the wrong impression that we are a colony of the U.S. and that whenever the Americans say jump, we ask "how high?"

In fact, not a single agreement has emerged from the informal exchange rate consultations between Taiwan and the U.S. so far. At best what has been achieved is an exchange of opinions. Yet the exchange rate has broken through what everybody at home thought to be the ceiling 2 or 3 years ago: \$1:NT\$35 or 32, hitting \$1:NT\$28 in the first half of November. This outcome can be attributed to speculators and people who have been talking up the exchange rate.

At a time when we are running up a large trade surplus, we cannot justify keeping the old exchange rate. Besides, appreciation would prompt businessmen to improve management and upgrade their products. In our peculiar economic system, however, it would certainly benefit social and political stability if we can stop the exchange rate from going through the roof and let exporters earn a little more money.

Foreign Exchange Market Vulnerable to the Assault of Rumors

Furthermore, the theory that "the currency must appreciate when there is a trade surplus" may not really work in the real world. During an economic recession, for instance, exports shrink of course, but imports may decline even more. If the above theory holds and we revalue the currency because there is a trade surplus, would we not be destroying the industries? Thus people who seek to run the world on the basis of economics texts may do great harm to economic development.

Americans who call for a more expensive new Taiwan dollar day and night probably also realize that the theory of currency appreciation is not as simple as the textbook says. However, to fend off pressure from the American public, they have no choice but to play this artificial semi-coercive game. Needless to say, they have learned everything about our foreign exchange market even before they started playing the game.

On 25 October, the U.S. Treasury Department issued a study report on exchange rates which sharply criticized Taiwan for manipulating the exchange rate and declared that negotiations would be held with our government to discuss the matter. From our point of view, there is much in the report that is refutable. Based on what happened in the past, it is a foregone conclusion that the coming negotiations would be another inconclusive exchange of opinions. Still, the new Taiwan dollar will go up all the same, if only because there is a group of people among us who are "quick to criticize ourselves and slow to refute others" as well as a foreign exchange market vulnerable to rumors.

If we fail to arrive at a consensus based on national interests on the exchange rate, there is no guarantee the dollar will not drop to NT\$20 in the near future.

Survey on Lee Teng-hui's Performance

40050302b *Taipei TZULI WANPAO* in Chinese
15 Jan 89 p 2

[Article by TZULI WANPAO Political and Economic Office: "This Newspaper Conducted a Telephone Survey of President Lee's Popularity: 60 Percent of the Public Is Satisfied With Parliamentary Reform, Nearly 90 Percent Is Satisfied With Overall Administrative Performance"]

[Text] This newspaper conducted a survey of President Lee Teng-hui's popularity after a year in office, and the results show that nearly 90 percent of the respondents in greater metropolitan Taipei are satisfied with President Lee's overall performance last year but that on the specific issue of parliamentary reform, the approval rating fell to 60 percent.

The sample population of this survey was the listing of the telephone directory of greater Taipei, the sampling method employed was isometric, and data was gathered through questionnaire interviews conducted during the evenings of 6-7 January. Altogether, 617 persons aged 20 and above were selected for interviewing, 93 of whom refused to be interviewed (including those who refused to continue during the course of the interview), for an effective sample of 514. The margin of error of the survey was plus or minus 3.9 percent.

Of the respondents, 76.2 percent were satisfied with President Lee's ability to deal with crises and 11.2 percent were dissatisfied. On the question of parliamentary reform, 59.5 percent of the respondents expressed satisfaction and 25.4 percent, dissatisfaction, but when

controlled for provincial background, the approval rate was 74.9 percent and the disapproval rate, 9.7 percent. On the question of the way relations between Taiwan and the mainland have been handled, the approval rate also reached 74.9 percent while the disapproval rate was 12.8 percent.

When respondents were asked to evaluate prospects for domestic democratic reform this year, 54.4 percent said they were optimistic, 25.4 percent said they were pessimistic, and a substantial percentage—20.2 percent—expressed no opinion or said they did not know.

Of all the respondents, 46.5 percent said they were optimistic regarding the continued growth of the domestic economy, 38.0 percent indicated pessimism, and 15.5 percent expressed no opinion or said they did not know.

When asked to evaluate prospects for public order, 67.4 percent of the respondents expressed pessimism, while 25.0 percent remained optimistic.

Even though respondents differed in their evaluations of the prospects for domestic political, economic, or social issues this year, 83.3 percent indicated approval of President Lee's personal performance in dealing with major issues, thus showing continued great confidence in his ability; conversely, only 8.5 percent expressed lack of confidence in him.

Speculations on Chiang Wei-kuo's Political Future

Status Discussed

40050266 Taipei TZULI WANPAO in Chinese
1 Jan 89 p 2

[Article by staff reporters Hu Hsing-lai 5170 2502 0171 and Hu Yuan-hui 5170 0337 6540: "Chiang Wei-kuo—A High-Profile Political 'Chessman'"]

[Text] When national assemblymen of the Democratic Progressive Party shouted complaints about the presence of security personnel on the rostrum and strongly boycotted the agenda at the meeting marking the adoption of the Constitution on 25 December 1988, Chiang Wei-kuo, secretary general of the National Security Council, suddenly jumped up from his VIP seat, angrily admonished the national assemblymen of the Democratic Progressive Party for disturbing the peace at the meeting, and demanded that they "get out." Chiang Wei-kuo's unexpected behavior—fierce stare and forceful gesturing—not only shocked everybody at the meeting but also stirred up some controversies later in various circles. As a result, Chiang Wei-kuo, whose role has always been the focus of attention in the current political structure, has now become a news headline.

Since Chiang Ching-kuo died of illness in January 1988, Chiang Wei-kuo has been considered the representative of Chiang's family symbol. What kind of role will he play in the course of power transition is a question of popular

concerns. Some traditional politicians have placed high expectations on him. During the course of high-level party and government power transition, Chiang Wei-kuo seems to have been considered as the most maneuverable chessman. His political position is quite delicate. Before the 13th Kuomintang (KMT) Congress, there were rumors that he would become the vice chairman. But he failed to be nominated as a member of the KMT Central Committee. Now there are widespread rumors that he may become a presidential or vice presidential candidate in the election of 1990. Many political rumors and promises generated behind closed doors are circulating secretly in sensitive political circles.

Except for the 90-year old Sung Meiling, Chiang Wei-kuo is the only member of the Chiang's family holding a higher political position. At a time when the traditional Chinese custom of hereditary political practice has not been completely uprooted, Chiang Wei-kuo is looked upon as a "firm rock in midstream" by those politicians who have Chiang complex, indicating that he has a special background. Before the 13th KMT Congress was convened, Sheng Chieh [0524 0267], founding member of Lihsingshe and national assemblyman, told people: "We should have at least one person, who is known to mainland compatriots, as the vice chairman of our party!" This remark obviously implies that even mainland China pays attention to Chiang Wei-kuo's movements and emergence. Amid this special complex and environment, Chiang Wei-kuo has drawn the attention of many curious outsiders in the past year.

In addition to his unusual family background, Chiang Wei-kuo's attitude of life—serious on one day and facetious on the next—has also attracted popular interest. Outsiders often think of him as being tall, handsome, frank, open, humorous, witty, and "a reasonable man." But politicians, who are familiar with his style, think that he "lacks political foresight and the calm and cool demeanor of a leader" and is too straightforward. They pointed out that Chiang Wei-kuo's sudden actions at the meeting marking the anniversary of the constitution was a concrete reflection of the "temper of a pampered son of a wealthy family." He was also harshly criticized for being out of line. Those, who disagree with this view and think that his performance on that day was a signal of command, "really overestimated his role."

In the eyes of the general public, Chiang Wei-kuo seems to be a borderline character between official and unofficial histories. Some people think that he is often restrained because he is inordinately proud of his ability and his attitude is not "political" enough. Others pointed out that with the way he treats people and does things, he could not have reached a position as high as the present one without the "considerable influence of his family."

Chiang Wei-kuo's life is quite a legend. The blood relationship between him and Tai An-kuo [2071 1344 0948] and Chiang Kai-shek and Tai Chi-tao [2071 1323

7118] has remained a sensitive issue for many years in the political circle. The unnatural death of his first wife, Shih Ching-i [4258 7234 1355], and his private life are also very popular stories.

During the power transition following Chiang Ching-kuo's death, the possibility of Chiang Wei-kuo's emergence was widely discussed by politicians. Sheng Chieh once supported and campaigned for him to become the vice chairman of the KMT. At the 13th KMT Congress, some people jointly submitted a "proposal" asking Li Teng-hui to nominate Chiang Wei-kuo as a member of the KMT Central Committee. In addition to this, there were also rumors about the "Meihua Ballot Switching Group" before the congress. Asked about these rumors, Chiang Wei-kuo always said "I will follow the party's order in everything" and "I have never personally competed for any position." But authoritative personnel in the political circle pointed out that Chiang Wei-kuo probably did not create these external conditions, but it would not be true if we say that he is "strong because he has no desire." They think that Chiang Wei-kuo's intention seems to be always "ambiguous." People with this view pointed out that during the 2 weeks of high-level party power transition after Chiang Ching-kuo's death, Chiang Wei-kuo's attitude was actually one of "subtle and embarrassing neutrality."

After the 13th KMT Congress, Chiang Wei-kuo continued to play the role of a marginal character that he played at the congress. The Guiding Group for Mainland Work, the Special Group for the Reform of Party Affairs, and the Guiding Group for Central Election Assistance were established one after another, but Chiang did not get a part in any of them. Even when the Special Group of the National Security Council decided on candidates for positions with central organs representing the people's opinions, Chiang Wei-kuo could exercise no more power than a mere member of the special group. The status of secretary general did not give him special decision-making power and, with limited knowledge in legal and administrative affairs, he himself also seemed to want to stay out of this matter. Despite the changing situation, Chiang Wei-kuo's decision-making status has remained unchanged.

However, after the 13th KMT Congress, the national assembly was different. As the Retirement Regulations, whose confirmation was purposely put off until after the congress was over, were being deliberated by the Legislative Yuan, senior national assemblymen stirred up a wave of protests against retirement within the national assembly. Hinged on the development of protests against retirement is the "election situation" of president and vice president in 1990. Senior national assemblymen, who are both "voters" of president and "leading players" of retirement, have begun to play their last political game and Chiang Wei-kuo has somehow become both an "audience" and a "player" of this great political game.

According to the opinions of senior national assemblymen, future candidates of president and vice president

must maintain a balance between provincial origins. In other words, if another Taiwan native becomes president, vice president must be someone from mainland China to show respect and call for unity; otherwise, the KMT would become "the party of a province" and Taiwan "the country of a province." Among candidates of mainland origin, Chiang Wei-kuo, who has the "mark of Chiang family" and is "nationally known," has therefore become the target of support of some senior national assemblymen.

However, some politicians think that the motives of supporting Chiang Wei-kuo are complex. Some national assemblymen may be "supporting Chiang" in name and "opposing Li" in reality. Some may be just echoing what others say in order to promote their own positions or improve retirement conditions. So, although many people support Chiang Wei-kuo to be vice president, there are also some who want him to run for president.

Rumor has it that Chiang has "high appeal" within the national assembly and that over 400 people support him. Some people say that only a few people support Chiang Wei-kuo. The former is obviously an exaggerated figure and the latter tends to underestimate it. According to our observation, Chiang Wei-kuo still is "a live chessman" amid the changes of time.

Those who were determined to enthrone Chiang Wei-kuo made several attempts during the period between Chiang Ching-kuo's death and the 13th KMT Congress. Then how does Chiang himself think about all this? Chiang told some people that all this was other people's idea, not his, and that he remained silent because openly opposing it may cause hard feelings and misunderstandings. However, several high-ranking officials, who first claimed that "they knew nothing about his intention," did not rule out the possibility that Chiang might be "interested in the throne" or at least unwilling to stay low. A source familiar with Chiang's movements has clearly revealed that Chiang Wei-kuo has contacted some unusual people in the political circle to discuss the matter of presidential and vice presidential election. It looks like that Chiang is not only a chessman in the hands of other people but also a chessman played by himself.

The Chungshantang incident, which occurred on 25 December 1988, not only made Chiang Wei-kuo a controversial figure but also furthered the scenario of Chiang Wei-kuo in the presidential election. Many senior national assemblymen applauded Chiang for angrily denouncing the national assemblymen of the Democratic Progressive Party. In addition to Chiang's personality, there are now rumors about his "campaign gesture" in the political circle. But what is ironic is that the Chungshantang incident also exposed the fact that Chiang's words carry little weight in the policy-making system. A KMT member said: Having nothing to do with the anti-system policy decision is probably the exact reason why he made that "gesture."

Chiang Wei-kuo seems to be a "misfit" that has long been in a political hot spot but has never made it to the center of the political arena. Due to the complexity of the situation created by Chiang's status, peculiar personality, and drastic social changes, it is very hard to tell whether it is Chiang mocking politics or the other way around. Will "March 1990" become a number that would change Chiang Wei-kuo's life? Or will it be just another joke the nature played on Chiang? The public will become more and more interested in these questions.

Criticized in Open Letter

40050266 Taipei TZULI WANPAO in Chinese
30 Dec 88 p 9

[Letter by Ku Ling 5388 5376 in "Teasing the Famous" column—"Who Does Chiang Wei-kuo Want To Throw Out?"]

[Text] My Beloved Secretary General Chiang:

I have been "teasing famous people" for quite some time now. Why have I waited so long to "pay tribute" to you? My first reason is that your image is not bad. You were unharmed even when the three generations of your Chiang family were "battered" by political magazines. Even non-party members seldom use you as cannon fodder. This is mainly because you are fairly "open" and often speak "some human languages." Small citizens like myself naturally encourage the spirit of "emerging untarnished from the filth."

My second reason is that I have some sympathy for you. Your big brother made an eternally famous remark that you "can't and won't" become president, thus "depriving" you and your other brothers of "civil rights." I suppose you must have been feeling pretty bad ever since. The third-born are supposed to be those who "engage in petty jobs." There is no hope for them to become presidents even if they wanted to. But you are different! Your big brother was lucky because his last name was Chiang. You are unlucky because your last name is Chiang. After he made that "infallible remark," it looked like that you probably would not have had any chance to sing "it will be better tomorrow" and that all you could do was singing "my great brother and father" for the rest of your life.

But, as time passes and situation changes, your chances seem to have arrived again. Ever since the 13th KMT Congress, there have been people "overtly plotting" to support you as vice chairman. In the past, there was no such "thing" as vice chairman. Vice chairman is to act as chairman when the latter is gone and succeed him when he kicks the bucket. The chairman is now alive and well, but a storm may arise from a clear sky. So who knows what will happen after you become vice chairman. You might not "become a chairman without spending a penny." Although the plot to make you vice chairman went down the drain because it was not fair (it was said

that in order to satisfy every group, we must add 13 vice chairmen), your "illustrious name" has brought back many people's old memories.

Our senior national assemblymen, in particular, have been paid and fed for 40 years for doing nothing. Their one and only job was to elect presidents. Since they were "well trained," they checked every name that included the word "Chiang." Their reaction was more accurate than that of guinea pigs in laboratories. However, the word "Li" will appear on the next ballot sheet. Since many senior national assemblymen do not know this word, it will be hard to estimate how many votes, 800 or 400, a president will get at that time. In view of this problem, some people came up with a wonderful idea. That is, to place your "Chiang" under the title of vice chairman to make it convenient for senior national assemblymen to find the word, make check marks, and get their money's worth. This can help "strengthen the leading center" and allow senior national assemblymen to "keep the tradition," can't it? Your big brother said you "can't and won't" become president, but he did not say you could not become a vice president!

I guess it was this point that made you change your previous "open" image and ran around licking the boots of senior national assemblymen while the nation was calling for the reform of the national assembly. You even stooped to their level and called yourself an "old fox." Like "beggars chasing out the temple keeper," you had the nerve to yell "get them, throw them out" at the meeting marking the anniversary of the Constitution. I think you have really forgotten "who you are." Wake up, please! Don't forget Li Teng-hui was the master of meetings and the Taiwanese compatriots are the masters of Li Teng-hui. Fawning on senior national assemblymen can get you at most a seat on the plane named "exile." Would it be useful?

Lin Yang-kang Discusses Recent Developments, Denies Ambition

40050302a Taipei TZULI WANPAO in Chinese
19 Jan 89 p 2

[Interview with Lin Yang-kang, president of the Judicial Yuan; interviewer, place, date not specified; "Rumors Are Rife Regarding the Next Presidential-Vice Presidential Elections; Lin Yang-kang Declares He Has No Ambition for these Posts and Urges That We Remember the Precedent of the Third Generation of the Cheng Clan and Not Allow Struggle for Political Position To Repeat That Historic Tragedy"]

[Text] Lin Yang-kang, president of the Judicial Yuan, has always been a closely watched political "star." Although the Judicial Building he currently occupies symbolizes neutrality, he has never been considered by outsiders as politically "cold." Rumors have recently been rife regarding the upcoming presidential and vice presidential elections, and the intentions of Lin and of Chiang Weiguo

have been the subject of even greater speculation. The latter indicated in a speech the other day: "Only a fool would want to be president." So what, then, is Lin's view?

Facing a reconstitution of power within the ruling party during the next stage, Lin not only directly took warning from the third generation of the Zheng Chenggong (Koxinga) clan and urged everyone not to create tragedy for Taiwan by struggling for political position, but also clearly indicated that he had no ambition for political office whatsoever, that he has engraved in his memory the national calamity engendered by the third generation of the Cheng clan, and that he would not allow people to egg him into rashly fighting for political position.

In addition, the ruling of the Council of Grand Justices on the Two Provincial Organizations Act and the accusation of bribery against Wu T'ien-hui, director of the Fourth Department of the Judicial Yuan, are alleged by some media to be the "by-products" of power struggle.

Our Reporter recently called upon Lin Yang-kang to interview him as a "political figure" and to ask him to discuss his views on political development and a variety of other things that have occurred in the year since the death of late President Chiang Ching-kuo and that will continue in the future, so as to ascertain Mr Lin's "political views" from the bottom up. Following is the content of the interview.

[TZULI WANPAO]: In the last year since late President Chiang Ching-kuo passed away, Taiwan has undergone considerable political, social, economic, and other changes. What, sir, are your views of these changes?

[Lin Yang-kang]: While he was alive, late President Chiang decided to lift the Emergency Decree and the ban on new parties and to allow mainland compatriots residing in Taiwan to return home to visit their families. Since his passing, all departments have adhered to these decisions in their work. This has made the constitutional government of the bastion of national revival more democratic and the bastion's society more open; lifted the freeze on contacts between Taiwan and the mainland; and helped resolve many problems that are regrettable from a humanitarian standpoint. From the perspective of today, these decisions were positive and will prove to be of key importance in the future.

However, events that have occurred over the past year show that there are areas in which our citizens lack sufficient understanding and training with respect to democracy, freedom, and social discipline, which shortcomings have led to many disorderly or illegal acts that have undermined social order.

On the positive side, our democratic politics operate in a more lively fashion, society is more open in all respects, and our relations with the mainland are in greater line with humanitarianism—just as Mr Chiang had hoped. However, events violating social order are the negative

side that citizens do not wish to see. I hope that our compatriots will strive to realize the positive aspects of late President Chiang's decisions and to reduce the negative aspects as much as possible.

[TZULI WANPAO]: On the basis of your involvement and experience, how would you describe the times and conditions under which late President Chiang decided to lift the Emergency Decree and the ban on new parties and to undertake other major reforms and initiatives?

[Lin Yang-kang]: I did regularly participate in decision-making at late President Chiang's side and can only answer in terms of the experience I had when I served in the Ministry of Interior. When late President Chiang discussed these issues with me, he did not say very much because of his busy duties, but he also said the issues of the Emergency Decree and the party ban had to be studied carefully and that all the pros and cons had to be considered. So long as the security and stability of the bastion of national revival were not undermined, he said, appropriate readjustments could be made in these policies. If I might divulge a little more, in studying the party ban issue we discovered that the government had only proclaimed that it was impermissible to organize new political parties but had no other legal provisions on the matter. If the ban were to be enforced, we concluded, we could have imposed criminal responsibility only on the basis of the National Mobilization Decree. After the president considered the matter, he refused to approve this approach. At that time I guessed that the day might come when the ban on new parties would be lifted.

[TZULI WANPAO]: Given circumstances today, what effect do you think late President Chiang's death had on reform work?

[Lin Yang-kang]: I feel that if late President Chiang were still with us today, his extralegal moral sway might have made some things turn out a little differently than they have. For example, he had hoped that senior central parliamentarians would have taken the initiative in retiring, and perhaps a few more might have responded to his wish.

However, in directing national affairs and in leading administrative policy in all areas over the last year, President Lee Teng-hui has by no means contravened the basic principles laid down by late President Chiang. In this respect, we must commend the leadership President Lee has provided. I would hope that compatriots throughout the nation would ask whether or not the direction President Lee has set has been of benefit to the security and stability of our country and has facilitated social progress and prosperity and not judge him purely because he is different from his predecessor. We should rally behind him with one heart and one mind and help him carry out his policies in every area.

I also do not agree with the notions of "the Chiang Ching-kuo era" and "the Lee Teng-hui era." Today,

under democratic politics, the factor of individual personal rule does not obtain. What we are talking about is public affairs, and all of the 20 million compatriots of the bastion of national revival must have common responsibilities, rights, and qualifications to promote things that are beneficial to the nation and the public; we should not accept the notion that politics are the affair of the president alone. Since none of us wishes to see the bastion of national revival gobbled up by the Chinese Communists, and since all of us hope to preserve the progress, freedom, democracy, and prosperity of the bastion, we should not adopt a different attitude just because there has been a change of presidents.

[TZULI WANPAO]: Nevertheless, although neither the government nor the opposition wishes to see Taiwan ruled by the Chinese Communists, the two sides do not agree on the direction of Taiwan's future; in other words, they still differ on the issue of national identification. What, sir, is your view on the matter?

[Lin Yang-kang]: Do you mean the unification-independence controversy?

[TZULI WANPAO]: To a certain degree, that is the issue.

[Lin Yang-kang]: We adhere to political democracy, social openness, and economic freedom, whereas on the mainland, which is dominated by the Chinese Communists, there is political dictatorship and a centrally controlled economy. Although the mainland's system recently has relaxed somewhat, there is a sharp difference between the systems and life styles of the two sides. So compromise and negotiation with the Chinese Communists in an effort to achieve unification would not only be disadvantageous to the 20 million compatriots of the bastion of national revival but would also remove the external incentive for changing the system and lifestyle borne by our nearly 1.1 billion compatriots on the mainland, who hope for such changes, which would be a great loss. Thus the time is not ripe for a discussion of unification.

But if it is true that we cannot achieve unification at the moment, should we then seek independence for Taiwan? I believe this to be an incorrect direction. For from the long-term historical perspective, is this tiny little island with such a small population, such a small territory, and so poor in resources fit to become an independent nation? And then there is the standpoint of the Chinese Communists. There are two considerations that prevent them from resorting to military force. The first is international condemnation, and the second is the fact that unjustified use of military force against their own compatriots will not win them eager support from their mainland compatriots and their military. But if Taiwan were to become independent, that would give the Chinese Communists a good excuse to use their army; they

could raise the great banner of nationalism and prosecute an energetic fight. Then our mainland compatriots would support the Communist regime's use of military force.

We have the notion of a republic of five nationalities, but there are probably 20-30 other nationalities besides the five big ones. So if Taiwan were permitted to become independent, Tibet, the Islamic peoples, and Inner Mongolia should also be granted such status. In this fashion, who knows how fragmented the Chinese mainland would become? How could the Chinese Communists tolerate this? Although the Communists would have to pay a very high price to use force against the Taiwan-Pescadores area, they do have the strength necessary to blockade the Taiwan Strait and to isolate Taiwan, the Pescadores, Quemoy, and Matsu without direct resort to military force. What kind of panic would happen in that eventuality?

Thus we cannot talk of Taiwan independence today. In discussing nationalism, Mr Sun Yat-sen described blood, script, spoken language, religion, and custom as the essential ingredients defining a nation. People who are part of the Chinese nation cannot be separated no matter how hard one might try. Taiwan is part of China, but it is part of the civilization of China, not of the Chinese Communist regime or the People's Republic of China. The correct direction for us now is to spread all of the existing systems on the bastion of national revival to the Chinese mainland, to preserve our strength so as to compete with the Chinese Communists, and thus to influence reform of the mainland system.

[TZULI WANPAO]: Presidential and vice presidential elections will be held next year; and outsiders are very interested in these events, including the many rumors surrounding your interest in running. You have answered this question before. We should like to know whether or not you could explain your future plans more clearly and to know what your views are on the considerations of provincial origin, age, and other factors that outsiders have raised concerning presidential and vice presidential selection.

[Lin Yang-kang]: Provincial origin and age are not the most important factors in selecting the president and vice president. The provincial issue need not detain us at all; the constitution provides that persons from any of the provinces in the territory of the Republic of China are qualified to fill these posts. As to age, one cannot say that a person 70-odd years old will not do. Some 70-year-olds are as healthy as 30- or 40-year-olds, so the only issue is health.

The most important thing, though, is this. For example, President Lee Teng-hui's leadership during the last year has been stable and correct, so if he desires to campaign for reelection and, with 2 years of experience by the time next year rolls around everyone continues to support him, I think that would be very good. If for any reason,

President Lee does not desire or is not fit for another term of office, we should consider other candidates. But there must be a precondition: we must not allow a struggle for position to destroy the unity of the bastion of national revival, for this would be bad and tragic.

I, too, know of the recent article in the Hong Kong magazine CHIUSHIH NIENTAI [THE NINETIES] that employed an undisguised historical allusion in discussing this matter. The article described the fight between the brothers Cheng K'o-tsang and Cheng K'o-shuang, which not only split their internal forces but also led to both of their falls; urged us not to take this disastrous route but to make unity and stability our primary goal and not allow political ambition to harm us or to destroy the future of our nation; and mentioned me a lot.

I certainly will remember this precedent and will not allow people to egg me on to a rash struggle for power. I have never had any ambition regarding political office, and the reason magazines in the street stalls claim that I desire to run in the next election for president is related to the question that I answered from the audience in a symposium sponsored by YUAN CHIEN [GLOBAL VIEWS]. But the question posed was "if the party and the public both want you to be president, what will you do?" which implied action by the Central Committee of the ruling party and popular opinion as reflected in the National Assembly, so I said I would not rule the option out. I was not directly asked whether or not I wanted to run.

[TZULI WANPAO]: Well, then, as a member of the KMT Central Standing Committee, how do you, sir, believe the candidates for the next presidential-vice presidential election should be selected? How do you view the proposals for primary elections or for the convening of an extraordinary national party congress that have been raised by some people within the party?

[Lin Yang-kang]: I think that the KMT Constitution and relevant laws already have provisions for this, namely, that the candidates should be nominated by the full membership of the Central Standing Committee. Since these conventions and provisions exist, we must not rashly change them. As to primary elections, I do not know the details of the proposal and thus cannot evaluate it.

Travails, Future of Wu Po-hsiung Analyzed
40050301a Taipei TZULI WANPAO in Chinese
8 Jan 89 p 2

[Article by Wei I-chun 7614 6318 0689: "Wu Po-hsiung: Mayor of Taipei Who Is Racing Against Time"]

[Text] During the intense heat of last summer, Taipei's political arena was rocked by a July typhoon: the reorganization of the cabinet was played out through a series of tricky chess maneuvers, with a surprise at every move, among which the transfer of Wu Po-hsiung to take

charge of the municipal government of the capital city was just like Chang Hsun's defense of Ch'iao-yang, causing Wu's friends great concern over his political balance sheet.

But as the seasons presses toward the end of winter, the air mass surrounding Wu Po-hsiung has begun to emit warm hints of early spring. Early this year, a poll of the degree of public satisfaction with local government performance in 1988 conducted by the Public Opinion Research Foundation reported that the overall approval rating of Wu Po-hsiung, who had been in office as Taipei mayor for only 4 months, was 81.1 percent, ranking him first among all county and city executives in the province.

Trapped in Shallow Water, the Rambling Dragon Cannot Help Sighing in Frustration

Wu Po-hsiung is modest about this gratifying gold medal which graces his chest, but political analysts in Taipei experience a subtle feeling when they examine Wu's situation. Externally, Wu Po-hsiung still seems to be the Wu Po-hsiung of old even though he has moved from the Ministry of the Interior on Roosevelt Road to the municipal government on Ch'ang An West Road: he still enjoys the popularity he has accumulated from heroic outspokenness and exhibits his unique charm as a practitioner of "expert enterprise-style management." But while the figures from this recent poll seem accurate and appropriate to Wu's friends, they cannot conceal his sighs of frustration at being a rambling dragon trapped in shallow water!

Essentially, this poll confirmed that Wu Po-hsiung did not fit in with the unconventional disposition of personnel effected last summer, but the poll by no means revealed the ecological network of power within the Kuomintang (KMT). An Executive Yuan minister of state hinted cryptically: "Did not Lin Yang-kang and Lee Huan also experience ebbs and flows in their political fortunes?"

In fact, when one examines the ecosystem of the current decision-making nucleus and the successor group, it becomes apparent that Wu Po-hsiung's official career is losing its durability, a sign which does not represent a depreciation of the function of his role but rather suggests that the ruling party authorities have opted to distance themselves from Wu's temperament as the party faces sensitive political issues.

This line of analysis is very common among top party and administrative officials in Taipei. A supplementary legislator who is friends with Wu disclosed that "Wu Po-hsiung's insistence that senior parliamentarians retire may have been one of the reasons behind his fall from the interior ministership."

When one scrutinizes Wu's political career, it is apparent that, while he gives outsiders the impression of a forthright, eloquent, and active figure, he is to a considerable degree bull-headed. In 1980, while serving as the director

of the Taiwan Tobacco and Wine Monopoly Bureau, he quit his post in a tiff after clashing with then Provincial Finance Commissioner Hsu Teh-li over a decision to hike the price of tobacco and wine. And when the National Security Council task force was discussing parliamentary reform during March and April of last year, he insisted on the need for senior central parliamentarians to retire, opposed the establishment of a system providing for mainland representation, and thus on several occasions openly argued point for point with senior Legislator Liang Su-jung [2733 5126 2051]—even though the chamber was ringed with powerful and venerable old leaders.

Given his political beliefs, which are rooted in popular opinion, whenever Wu Po-hsiung is slightly incautious he tends to wound the pride of powerful and venerable officials and to provoke counterattack from conservative forces, faux pas which are taboo for officials, especially for junior ones like Wu who have high position but less power and experience. In this perilous, hotly contested battle in which the new generation is replacing the old, it has been difficult to save Wu from the consequences of his acts, even with the assistance of venerable leaders.

Among the second generation of KMT successors, Wu Po-hsiung is the most frequently discussed, and he has always been considered by outsiders to be the popular choice for chairman of the provincial government. Nevertheless, Taiwan's distinctive political network is characterized by the strong-man system and old-man politics, and Taiwan's leadership core is full of backstage manipulators, powerful personages, and individuals holding a variety of powers, such that the political elites of the second generation face the very bizarre situation of "having a false image and empty power"—precisely the predicament in which Wu Po-hsiung finds himself. Rising from local to national politics after entering the arena at the age of 29, he has proved a valiant commander of many a campaign yet never advanced beyond the fringe of the decision-making nucleus until he rose to membership on the KMT Central Standing Committee in 1986, where he has been a silent microphone ranked second to last in importance. The grueling experience of nearly 20 years has molded Wu into a sonorous, forthright, and attractive leader with a great reputation; his clan's massive enterprise has indirectly contributed to his business acumen; and he employed the concept of commercial warfare as a competitive tactic after entering officialdom, which has contributed to his strong image as an expert enterprise-style manager. These factors doubtlessly have contributed to Wu's important popular base but also pose some potential problems for his future political career.

The Predicament of Having a False Image and Empty Power

Huang Chu-wen [7806 0031 2429], a supplementary legislator elected from Taoyuan, once said that Wu Po-hsiung likes to speed ahead but often forgets to put on

the brakes. Indeed, compared to Lin Yang-kang's tolerant self-control, Wu clearly lacks restraint, and although he is a gifted leader he is regarded as a big troublemaker who is apt to alienate people. As in basketball, the top scorer may also be the easiest to fake out. When one looks back on Wu's interior ministership, he was the cabinet member who compiled the most points and thus accumulated substantial popularity. But during the Legislative Yuan's deliberations on the issues of organizing new political parties, of whether or not to lift the Emergency Decree, of the National Security Law, and of the Law on Assembly and Demonstration, Wu, because these issues were related to his duties, frequently speak out on them in public. And while he argued his case eloquently, he occasionally committed slips of the tongue and was ridiculed by legislators of both the ruling and the opposition parties as "the oily larynx oozing words," thus squandering his resources for no purpose. And shortly after the 20 May incident, Wu appealed to emotion so as to boost the morale of the police, which was certainly his duty to do, but his argument was unpersuasive and it proved difficult to stanch the flow of charges that "the military police beat the people." And on the plan to reserve land for public facilities, Wu got hit again by stray bullets and vowed to resign on several occasions because he was not permitted to vent his frustrations publicly.

Wu Po-hsiung still enjoys considerable affection among the populace, yet among the decision-making nucleus of the inner court he lacks a faction, is not a trusted subordinate of any top official, and lacks a strong personal following. Though he has occupied high posts, the source of power lies elsewhere. Indeed, Chiang Ching-kuo had wanted very much to nurture Wu, appointing him director of the KMT Central Secretariat in August 1981 so as to enhance Wu's ties in the party affairs network.

But who can foretell what fortune fate has in store for man. After Chiang Ching-kuo passed away, Wu Po-hsiung confronted a decision-making ecosystem that underwent an almost complete structural reversal requiring a reevaluation of the standards for advancement and demotion. Nan Fangshuo [0589 2455 2592], the famous political theorist, has succinctly identified Wu's problem in the future. Lee Teng-hui's philosophy of recruiting personnel places great emphasis on new technocrats, the standard for which is to have academic degrees from foreign countries, an international background, a working knowledge of English, and a certain grounding in specialized knowledge, and such personnel must also consistently exemplify morality and ideals in administrative performance.

These criteria will make it difficult for Wu Po-hsiung, who has a B.A. in business from Cheng Kung University, whose English is barely passable, and who has only a weak international background, to make any positive breakthroughs in future political arrangements. Nevertheless, political fortunes are tough to gauge, and the fact

that Wu still possesses unique and abundant political resources should not be slighted.

Born into a rich and powerful clan in Chungli, Wu Po-hsiung nevertheless does not display much of the profligacy of rich playboys. Moreover, he is experienced and gifted in mediating disputes among local factions, is judicious and loyal, and very much appeals to the taste of grassroots Taiwan. For example, during his tenure as executive of Taoyuan County beginning in 1973, he oversaw completion of Chiang Kai-shek International Airport, the procurement of land for the construction of the freeway, the development of the Chungli Industrial Park, and the construction of Chiang Kai-shek's temporary resting place at Tz'u-ku, all of these accomplishments required the support of local factions. From this perspective, while Wu Po-hsiung finds it difficult to roam freely the apex of the pyramid of power, he easily and happily brings together the factions straddling the middle and bottom tiers thereby moving right in to fill the vacuum which the party's authority has failed to penetrate.

Although Wu Po-hsiung is intent on accomplishing things in Taipei, he must fiercely race against time, because his tenure certainly will not be long. I recall that when his friends first learned of his transfer in July of 1988, many of them asked suspiciously, "What did he do wrong?" Then they wondered if the KMT had made the move in preparation for opening the position to a popular election and consoled themselves with the thought that he is only 50 years old and still has ample time; he came from the grass roots and can wage electoral battle; and he is forthright and open-minded and can be conciliatory. In reality, however, the issue is not so simple or easy. Another interpretation of "still has ample time" is that Wu's period of risk has been extended. Taipei municipal government is a minefield in which order must cautiously be created out of chaos, and one must always guard against natural and human calamities that can blow in from out of the blue; a single misstep will show up as a debit on one's political balance sheet. And although it is said that Wu came from the grass roots and can wage electoral battle, he himself is not very interested in going the election route, heroes both within and outside of the party are drooling over the post, and the factional resources he can mobilize are far away in Taoyuan. In Taipei, Wu is like Chang Hsun defending Ch'iao Yang: If driven into a deathtrap, then he must fight. Time will not give him any breathing room. He must be able to seize his opportunities, take advantage from peril, and devise a crafty stratagem with which to break the encirclement. Only then might he be able to pluck victory from danger and ascend yet another peak.

Wu Po-hsiung's administration of Taipei over the last half year has certainly been "do whatever fits your style." He treats municipal government as an enterprise, encourages his subordinates to develop the notion that "an enterprise community is a community of emotional

attachment," most of his effort has commenced with transportation, and he has forged personal attachments in order to boost morale, thus fully exhibiting his charm as an expert enterprise-style manager. Secondly, he knows that he lacks an illustrious educational background and thus attaches great importance to the performance of his staff. In this area, Wu has adopted much of the ancient spirit of Lord Meng Ch'ang, attracting a large following of guest officials and counselors beneath his roof, and thus has cleverly avoided the arbitrariness and arrogance of "a great man who commits great blunders."

In Accepting the Transfer, Wu Awaits Timely Appointment

When Wu Po-hsiung went to take charge of the administration of the capital city, it was expected that this would be a time for him to conserve his strength and store up energy and an important transfer station within which he could await timely appointment. Besides developing the tolerance and self-restraint necessary for an official career, Wu, even more, must use this time to act boldly on Taipei's administrative affairs so as to dispel the transitory feeling surrounding his appointment. Nevertheless, on balance, through the ups and downs of his official career, in which he rose from the Third Young Master of the Wu clan of Chungli to the mayor of Taipei, Wu certainly has proved himself to be a straightforward and sincere political figure. But a public opinion poll probably cannot accurately gauge the various complicated and delicate considerations that the authorities of the ruling party will make in determining whether or not to employ him.

Frustrations of Political Life

40050301b Taipei TZULI WANPAO in Chinese
11 Jan 89 p 9

[Article by Ch'i Yeh 2722 0673: "Warped Taiwan"]

[Text] On Double Ten Day this year, I went to the square at Chiehshou Road to watch the ceremonies, and when the slogans were shouted at the close, I yelled from among the crowd, "Long live President Lee! Long Live President Lee!" Only when I was through did I discover that many pairs of eyes were staring at me full of astonishment. Yes, it was very strange, because ever since we were old enough to have any sense we used to shout "Long live President Chiang!" at the close of every meeting. And we did this for 40 years running, which makes it very difficult immediately to adjust the slogan—about as hard as trying to switch to hollering "uncle" after bellowing "papa" for 40 years.

When we were little, they used to want us to be nice little darlings and to love the leader and the country and to counterattack the mainland when we grew up. They were quite willing to let us aspire to county executiveships and the like, but the textbooks were very clear: "Do big things; don't be a big official." But why, then, did the "grandpappies" and "granddads" we used to see every

day in the Legislative Yuan sit there dozing with their mouths gaping so wide? Weren't they afraid that the lizards on the ceiling might fall in? And with Uncle Chu clamoring like that all day long—could they really have been that deaf? And then there was Grandpa Yu Kuohwa. Every time he would appear, he would tell us to "wu-sa-sa"—whatever did that mean? We couldn't understand him at all, so how could we go and carry out his instructions?

The army days were worst of all. Why is it that there are so many cat's paws and running dogs in the service? You remember it, don't you? Each time the political instructors held a "glorious regiment meeting," they would announce, "Comrades! Today we will give you a chance to speak your minds. Feel free to let us know if anything is bothering you. We'll report the matter to the superiors for correction and give you the most satisfactory response!" Uh-huh—very democratic. Everyone would say a whole pile, and "they" would sit there looking as if they were dutifully writing everything down. But when you were done "speaking your mind," you'd be in for big trouble the next day. For those cat's paws would order you to squat and jump holding your rifle with both hands above your head while they jeered at you, "How's that? Does this response satisfy you?"

When you went out into society, you expected to do something worthwhile, didn't you? "Do big things; don't be a big official." With great difficulty you finally landed a job you hoped would give you something to do. But when you got there, you discovered to your surprise that Mr So-and-so whose grades and ability were a big cut below yours in school was now your superior. And when you asked about the matter, you were told, "His dad's a general; who the dickens are you?" Then you'd quit in a huff but soon would espy an announcement in the newspaper reading, "Such-and-such government agency is giving an examination to recruit employees," and off you'd go to register for the exam. After putting in the effort of nine bullocks and two tigers, you'd come out of the exam only to run into a member of the older generation, who'd laugh when you told him what you were up to: "Aiya! You're dreaming! That matter has already been decided internally!"

"What kind of bull is that? I think I made it!"

"Hah! So don't believe me. It'll take eight lifetimes for your name to come up on the candidate roster!"

Trudging wearily, I was more lost than ever. Lifting my eyes to Blue Heaven, I asked, "What kind of world is this?"

An intellectual who recently returned from abroad told me, "You have as many 'secret police' here as there in the rest of the world put together! If you're not careful when you speak, you'll be gone tomorrow!"

During October I made a trip down south to do a little business and went to look up an old friend on the way.

He told me he had been sick for quite some time, and when I asked him what he had, he said, "delusions" and explained the cause of his malady as follows: "Three years ago, I wrote a letter of criticism to the government but received no response...." "Weren't you afraid they'd arrest you?" "I'd seen that happen before—to people all around me, so I became very frightened, very frightened. And gradually I began to lose control of my mind."

Thus was a promising youth done in. Though not "picked up," he had been so frightened that he was no longer human. I immediately tried to cheer him up: "The dynasty's changed. What do you have to fear today?" "True, but ... I'm already beyond hope. I guess I was born in the wrong era."

After leaving him, I ended up going around in many circles before I finally found my way out of the lush green fields. Then, applying full horsepower, I pulled onto the freeway.

'Taiwan Fever' in Publication Circles

40050268 Taipei TZULI WANPAO in Chinese
1 Jan 89 p 4

[Article by Pan Yu 3382 1342: "Taiwan: A Direction of Hearts—'Taiwan Fever' Appeared in Publication Circles"]

[Text] The political ban has been lifted. This is apparent in the publishing industry, because the number of books using Taiwan as a subject has increased. Some publishing houses consider this trend as the new orientation of their publication; others have started the publishing business and devoted completely to printing books with Taiwan as a subject. In view of the "mainland fever" in publishing circles, a wave of "Taiwan fever" is quietly taking shape. While Taiwan's political, economic, and military control systems are gradually disintegrating, qualitative changes have consciously and unconsciously begun in cultural circles "as a matter of course."

The 1988 catalogue of new books published by the Chinshih Tang Bookstore shows that at least 87 books, which use Taiwan either as a title or as a subject, were published in 1988. Major topics of these books can be placed under 18 categories and the number of books under each category is listed as follows:

Seventeen books are on politics, 16 on culture, 8 on language, 6 on people, 5 on folklore, 5 on literature, 5 on arts, 4 on economics, 3 on history, 3 on education, 3 on problems, 2 on future, 2 on military affairs, 2 on law, 2 on Taiwan independence, 1 on agriculture, 2 on photography, and 1 on cinema.

Politics and culture have become the focus of thinking, which is in line with the changes in the entire social environment. Most cultural topics are related to political ideology, which is presented not through wide-range

discussion but in a way close to "showdown." In addition to books with such obvious titles as *The Theory and Reality of Taiwan Independence* and *The Ideas and Strategies of the Taiwan Independence Movement*, views in favor of Taiwan Independence have also appeared in a series of other books published by the Chienwei Publishing House of Taiwan.

Before the political ban was lifted, it was very difficult for such views to appear in the mass media. Today, they have not only been compiled into books but also published one after another. This shows more or less the possibility of the pluralization of political ideology. But according to Chan Hungchih [6124 1347 1807] who mentioned the trend of pluralization in his book *Trend Report*, Taiwan is more tolerant, but not necessarily lenient, toward unusual concepts of values despite pluralized developments in all fields.

In what way will future books in the "showdown" style broaden their horizon and develop their studies? How will the Taiwan society as a whole accept the cultural system or thinkings that are still considered as unusual? This will be a trial for the publishing market in 1989.

The abovementioned 87 books are published by 24 publishing houses. The Chienwei Publishing House published the most, 19 books, followed by the Tzuli Wanpao Publishing House, which published 9 books. Other publishing houses are Tunli, Nankuan, Taohsiang, Tungcha, Shihpao, Jenchien, Kuhsiang, Chunlun, Wuling, Chinkuan, Hsital, Lienching, Nantien, Chienhua, the

Organization of Industrial and Commercial Coordination and Promotion, Yunchen, Taiwan Scenery, Fengyun Luntan, Chiangpei, Wenho, Tzuyou Shihtai, and Hankuang.

The Chienwei Publishing House published two series of books on a grand scale. The first one is called *The Collection of New Taiwan People*. The second one is *The Library of New Taiwan*. Having attracted great interest of overseas Taiwanese but not distributed in Taiwan, *The Library of New Taiwan* was chosen as one of the 10 great cultural events in 1988. Covering literature, history, biography, philosophy, and arts, this series of books is of class significance in clearing up the confusions of history.

In addition, Tzuli Wanpao, Tunli, Nankuan, Taohsiang, Tungcha, and Wuling publishing houses have concentrated on publishing books about Taiwan. The Taiyuan Publishing House, which was established at the end of 1988 and had published five books on the history of Taiwan in early 1989, pointed out clearly that its purpose is to publish books on Taiwan culture.

Through the redistribution of banned books and the reconsideration of the Taiwan issue, publications circles fairly and directly reflected the lifting of the political ban in 1988. Whether or not the publications circles can present a more in-depth evaluation on the subject of Taiwan after only a year is worth observing on a continuous basis.